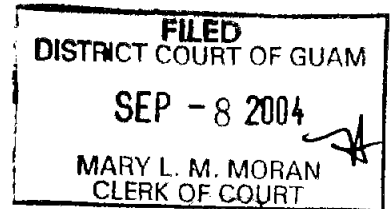


JOAQUIN C. ARRIOLA
ANITA P. ARRIOLA
ARRIOLA, COWAN & ARRIOLA
259 Martyr Street, Suite 201
Hagåtña, Guam 96910
Tel: (671) 477-9730
Fax: (671) 477-9734



Attorneys for Plaintiffs Alan Sadhwani, et al.

**IN THE UNITED STATES
DISTRICT COURT OF GUAM**

ALAN SADHWANI, LAJU SADHWANI,)
and K. SADHWANI'S INC., a Guam)
corporation,)

Plaintiffs,)

vs.)

HONGKONG AND SHANGHAI)
BANKING CORPORATION, LTD., a)
Foreign corporation,)
JOHN DOE I through JOHN DOE X,)

Defendants.)

CIVIL CASE NO. 03-00036

**DECLARATION OF ANITA P.
ARRIOLA IN SUPPORT OF
PLAINTIFFS' OPPOSITION TO
DEFENDANT HONGKONG AND
SHANGHAI BANKING
CORPORATION, LTD.'S
MOTION TO BIFURCATE
TRIAL**

ANITA P. ARRIOLA declares:

1. I am one of the attorneys for plaintiffs Alan Sadhwani, et al. in the above-captioned matter. I make this declaration in support of plaintiffs' Opposition to Defendant Hongkong and Shanghai Banking Corporation, Ltd.'s ("HSBC") motion to bifurcate trial. I have personal knowledge of the facts contained herein.

2. In this case, plaintiffs seek discovery of HSBC's profit and loss statements, financial statements, balance sheets, and other evidence of HSBC's financial status and net worth (hereafter

“HSBC’s financial information”). *See* R. Pipes Decl., Exh. A. HSBC’s financial information is relevant to three issues in this case.

3. First, it is relevant to the issue of the closure of the HSBC Guam office. Plaintiffs contend that when HSBC determined it would discontinue its operations in Guam, it placed pressure on the plaintiffs to pay off their Loan (“the Plaintiffs’ Loan”) and led to the workout agreement between plaintiffs and HSBC. *See* Plaintiffs’ Third Amended Complaint, ¶¶ 10, 16. Plaintiffs further allege that HSBC, in violation of the workout agreement, sold the Plaintiffs’ Loan to a fishing company, Paradise Marine Corporation. Ostensibly, the reason HSBC sold the Plaintiffs’ Loan and its other customers’ loans was because HSBC was in a rush to close its Guam office. During the course of discovery, plaintiffs learned that HSBC had indicated to its customers and to its employees that it was planning to close its Guam office as soon as possible. Yet only recently, I took the deposition of HSBC’s General Manager Chris Underwood, who testified at his deposition that HSBC is in no hurry to close its Guam office, that the bank continues to hold numerous loans with certain customers, and that it may not close the Guam office until 2010 or 2011. (As soon as the deposition transcript is received, plaintiffs will file the relevant excerpts of that deposition). HSBC’s financial information is relevant to establish HSBC’s economic or financial reasons for closing the Guam office and is further relevant in establishing that HSBC acted in bad faith by refusing to allow plaintiffs a reasonable time under the workout agreement to sell their properties or to obtain alternate financing. *See* Plaintiffs’ Third Amended Complaint ¶ 34B.

4. HSBC’s financial information is also relevant to how the sale of the plaintiffs’ Loan was disclosed in HSBC’s profit and loss statements, balance sheets, etc. and how it affected HSBC’s financial status. The evidence in this case establishes that PMC paid HSBC \$2.75 million

(but was refunded \$90,000 based on loan payments made by plaintiffs between the execution of the loan purchase agreement and the closing of the sale) for plaintiffs' Loan, which had a balance of \$6,457,044.56. The evidence also indicates that HSBC took a "write back" on the sale of the Loan. True and correct copies of pages 202-203 from the deposition of Frederick Granillo and an excerpt of Exhibit 34 to his deposition is attached hereto as Exhibit 1. (Because HSBC has designated the entire deposition of Mr. Granillo as confidential under the terms of the Stipulated Protective Order Governing Discovery, plaintiffs file this exhibit under seal). Plaintiffs have requested documents evidencing this "write back" and documents concerning HSBC's tax treatment of the sale of plaintiffs' Loan. A true and correct copy of plaintiffs' Sixth Set of Requests for Production of Documents is attached hereto as Exhibit 2. This evidence is relevant to plaintiffs' claim that HSBC acted in bad faith and failed to deal fairly with plaintiffs when the bank sold the Loan to PMC, for an amount that was less than half the balance of the Loan.

5. HSBC's financial information is also relevant to the issue of punitive damages sought by plaintiffs. *See* Plaintiffs' Third Amended Complaint, ¶¶ 68-69. Because of the overlap of evidence (HSBC's financial information) that plaintiffs intend to introduce to establish liability, compensatory damages, and punitive damages, it would be highly inconvenient for the parties or the Court to attempt to sort out the evidence by redacting or deleting portions of financial statements, profit and loss statements, or other evidence relating to HSBC's financial status or net worth. A unitary trial on all issues should be held in order to further convenience and judicial economy.

6. The parties in this case recently stipulated to a trial date of January 25, 2005. *See* Stipulation and Order dated August 18, 2004. At the hearing where the parties presented the Stipulation to the Magistrate Judge, he informed the parties that since the U.S. District Court of

Guam does not yet have a judge, the trial date would be dependent on the availability of a trial judge from off-island. Consequently, it is unknown whether the trial in this case will actually be held on January 25, 2005. Even assuming that the trial will be held on that date, in my experience it is very common for jury trials in the District Court to extend much longer than anticipated because of the press of other cases. For example, it is very common for a judge presiding over a jury trial to take frequent recesses to hear other matters, particularly bankruptcy and other cases that cannot be heard by the Magistrate Judge.

7. Unlike the jury pools in the U.S. mainland, Guam does not have as large jury pools. In their Initial Disclosures, HSBC and the plaintiffs have listed a combined number of thirty-three (33) witnesses in the case. The number of witnesses, as well as the long-established businesses of both plaintiffs and HSBC (with their many employees over the years), will certainly limit the number of jurors available to sit on this case.

8. There will be an overlap in the witnesses' testimony and documents to be introduced at trial concerning HSBC's financial information, since such evidence is relevant to liability, compensatory and punitive damages. It would be a waste of resources and time to have a duplication of trial testimony and evidence. In short, bifurcation would not serve the interest of judicial economy, convenience for the parties or witnesses, or result in a more efficient or economical trial. It is much more efficient to have a single trial.

9. I represent the same plaintiffs here in a related action filed in the Superior Court of Guam against PMC, the purchaser of their Loan, in the Superior Court of Guam. In Sadhwani v. PMC, Civil Case No. CV0739-04, plaintiffs obtained a temporary restraining order preventing PMC from foreclosing on the properties securing their Loan or from collecting any rents owed by

plaintiffs' tenants. A true and correct copy of the Order is attached hereto as Exhibit 3. By oral Order of the Court at a hearing on August 13, 2004, the Court extended the restraining order until September 17, 2004, the next hearing date in the case.

10. HSBC will not be prejudiced by the jurors' consideration of HSBC's financial information, including evidence of its net worth or financial status. A great deal of information concerning HSBC's wealth and financial status is available on the Internet for millions of persons to view and download on www.hsbc.com (type in "Annual Report" in the search engine, then click "HSBC Holdings plc")

11. HSBC is a Hong Kong banking corporation registered to do business on Guam as a foreign corporation. The above-mentioned website offers the Annual Report and Accounts of HSBC Holdings plc, which include the consolidated financial statements of HSBC Holdings plc and its "subsidiary undertakings", including HSBC "Hong Kong". Attached hereto as Exhibit 4 are true and correct copies of various pages of the Annual Report and Accounts of HSBC Holdings plc. The Annual Report and Accounts of HSBC Holdings plc comprise of 366 pages of balance sheets, financial statements, notes to financial statements, and financial analyses of HSBC Holdings plc, categorized by geographical region, including for Hong Kong. The net interest income, other operating income and bad and doubtful debts (pp.49-50), profit/(loss) before tax excluding goodwill amortisation for Hong Kong (pp. 79-87), average balance sheet and net interest income (pp. 123-141), gross loans and advances to customers (pp. 142-157), deposits (pp. 179-183), and Consolidated Financial Statements (pp. 233-239) are all attached hereto in Exhibit 4 and are reported in greater detail on the website. Because a good deal of information concerning HSBC's financial status and

net worth is already on the Internet for millions of viewers to read, HSBC will not suffer any prejudice by having the jurors hear or examine such evidence.

I declare under penalty of perjury under the laws of Guam and the laws of the United States that the foregoing is true and correct.

Dated this 8th day of September, 2004.


ANITA P. ARRIOLA

ARRIOLA, COWAN & ARRIOLA, HAGATNA, GUAM 96910

CERTIFICATE OF SERVICE

I, ANITA P. ARRIOLA, hereby certify that on September 8, 2004, I caused to be served via hand delivery, **DECLARATION OF ANITA P. ARRIOLA IN SUPPORT OF PLAINTIFFS' OPPOSITION TO DEFENDANT HONGKONG AND SHANGHAI BANKING CORPORATION, LTD.'S MOTION TO BIFURCATE TRIAL** to:

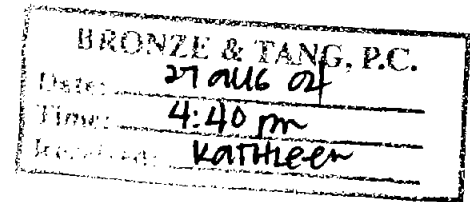
**Jacques G. Bronze, Esq.
Bronze & Tang, P.C.
2nd Floor, BankPacific Building
825 S. Marine Drive
Tamuning, Guam 96913**

Dated this 8th day of September, 2004.


ANITA P. ARRIOLA

ARRIOLA, COWAN & ARRIOLA, HAGATNA, GUAM 96910

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ANITA P. ARRIOLA
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259 Martyr Street, Suite 201
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Facsimile: (671) 477-9734



Counsel for Plaintiffs Alan Sadhwani, et al.

IN THE UNITED STATES
DISTRICT COURT OF GUAM

ALAN SADHWANI, LAJU SADHWANI,
and K. SADHWANI'S INC., a Guam
corporation,
Plaintiffs,

vs.

HONGKONG AND SHANGHAI
BANKING CORPORATION, LTD., a
Foreign corporation, JOHN DOE I through
JOHN DOE X,
Defendants.

CIVIL CASE NO. 03-00036

PLAINTIFFS' SIXTH SET OF
REQUESTS FOR PRODUCTION
OF DOCUMENTS

TO: DEFENDANT HONGKONG SHANGHAI BANKING CORPORATION, LTD.
AND ITS COUNSEL OF RECORD JACQUES A. BRONZE

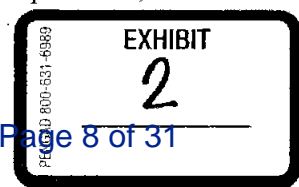
Plaintiffs Alan Sadhwani, et al. request that defendant produce and permit plaintiffs to inspect and to copy each of the following documents.

The place of inspection shall be Arriola, Cowan & Arriola, 259 Martyr Street, Suite 201, Hagåtña, Guam 96910. The date and time for inspection shall be September 27, 2004, at 9 a.m., and continuing so long as is reasonably required.

DEFINITIONS

As used herein, the following definitions shall apply:

a. "HSBC" means HongKong and Shanghai Banking Corporation, Ltd.



b. "DOCUMENTS" includes, but is not limited to, handwriting, typewriting, printing, photostating, photographing, and every other means of recording upon any tangible thing, any form of communication or representation, including letters, words, pictures, sounds, or symbols, or combinations thereof, and any written, recorded, or graphic matter however produced or reproduced, including, but not limited to, electronic files, documents, records or data, documents stored in or retrievable by computer, memoranda, reports, studies, analyses, contracts, agreements, checks, charts, graphs, indices, data sheets, computer disks, data processing cards or tapes, notes, post-its, work papers, entries, letters, telegrams, telecopies (including facsimiles), internal memoranda, advertisements, brochures, circulars, catalogs, tapes, records, bulletins, papers, books, pamphlets, accounts, calendars, or diaries. The term "document" or "documents" shall also include any carbon or photographic or any other copies, reproductions, or facsimiles or any original, and shall mean the original an any copy or reproduction or facsimile that is in any way different from the original.

c. "This action" means *Alan Sadhwani, et al. v. Hongkong and Shanghai Banking Corporation, Ltd.*, Civil Case No. 03-00036 (U.S. District Court of Guam).

d. "Regulatory authority" means any governmental agency, commission, board or other entity that regulates, oversees or supervises operation of banks or financial institutions.

e. "The Sadhwani Loan" means the HSBC commercial loan that HSBC sold to Paradise Marine Corporation under that certain Loan Purchase Agreement dated June 25, 2003.

f. "Workout" means an agreement between a bank and a loan customer that requires special repayment arrangements in light of potential or actual default on a portion or all of the loan customer's debt.

REQUESTS FOR PRODUCTION OF DOCUMENTS

The documents to be produced are:

1. All DOCUMENTS concerning, relating to, or comprising internal audit reports, exception reports, compliance reports, statistics or other management reports by HSBC that refer or relate to this action.
2. All DOCUMENTS concerning, relating to, or comprising half-yearly reports, yearly reports, compliance certificates or internal investigations by HSBC that refer or relate to this action.
3. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and the HSBC Hong Kong office that refer or relate to this action.
4. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and HSBC Holdings Plc that refer or relate to this action.
5. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and any other HSBC office or branch, including but not limited to HSBC USA San Francisco, HSBC USA New York, HSBC China offices, or any member of the HSBC Group, that refer or relate to this action.
6. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Hong Kong office and any other HSBC office or branch, including but not limited to, HSBC Holdings plc, HSBC USA San Francisco, HSBC USA New York, HSBC China, or any member of the HSBC Group, that refer or relate to this action.

7. ALL DOCUMENTS concerning, relating to, or comprising reports, communications, emails or correspondence between HSBC and any other person or entity that refer or relate to this action.

8. All DOCUMENTS concerning, referring or relating to this action that have been submitted to any regulatory agency.

9. All DOCUMENTS concerning, relating to, or comprising HSBC shareholder reports, annual reports, profit and loss statements, balance sheets, compilations or financial statements that refer or relate to this action.

10. All DOCUMENTS concerning, relating to, or comprising internal audit reports, exception reports, statistics or other management reports referring or relating to HSBC's sale of the Sadhwani Loan.

11. All DOCUMENTS concerning, relating to, or comprising half-yearly reports, yearly reports, compliance certificates or internal investigations referring or relating to HSBC's sale of the Sadhwani Loan.

12. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and the HSBC Hong Kong office that refer or relate to HSBC's sale of the Sadhwani Loan.

13. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and HSBC Holdings plc that refer or relate to HSBC's sale of the Sadhwani Loan.

14. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and any other HSBC office or branch,

including but not limited to, HSBC USA San Francisco, HSBC USA New York, HSBC China, or any member of the HSBC Group that refer or relate to HSBC's sale of the Sadhwani Loan.

15. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Hong Kong office and any other HSBC office or branch, including but not limited to, HSBC USA San Francisco, HSBC USA New York, HSBC China, HSBC Holdings plc, or any member of the HSBC Group that refer or relate to HSBC's sale of the Sadhwani Loan.

16. All DOCUMENTS concerning, relating to or comprising reports, communications, email or correspondence between HSBC and any person or entity that refer or relate to HSBC's sale of the Sadhwani Loan.

17. All DOCUMENTS concerning, referring or relating to the sale of the Sadhwani Loan that have been submitted to any regulatory agency.

18. All DOCUMENTS concerning, relating to, or comprising HSBC shareholder reports, annual reports, profit and loss statements, balance sheets, compilations or financial statements, that refer or relate to HSBC's sale of the Sadhwani Loan.

19. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and the HSBC Hong Kong office that concern, refer, or relate to the closure of the HSBC Guam office.

20. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Guam office and any other HSBC office or branch, including but not limited to, HSBC USA San Francisco, HSBC USA New York, HSBC China, HSBC Holdings plc, or any member of the HSBC Group, that concern, refer or relate to the closure

of the HSBC Guam office.

21. All DOCUMENTS concerning, relating to, or comprising reports, communications, emails, or correspondence between the HSBC Hong Kong office and any other HSBC office or branch, including but not limited to, HSBC USA San Francisco, HSBC USA New York, HSBC China, HSBC Holdings plc, or any member of the HSBC Group, that concern, refer or relate to the closure of the HSBC Guam office.

22. All DOCUMENTS concerning, referring or relating to the closure of the HSBC Guam office, including but not limited to, market or research analysis, surveys, investigations, reports or data, evidencing the profitability or non-profitability of the HSBC Guam office.

23. All DOCUMENTS concerning, referring to or comprising HSBC shareholder reports, annual reports, profit and loss statements, balance sheets, compilations or financial statements that refer or relate to the closure of the HSBC Guam office.

24. All DOCUMENTS concerning, relating to, or comprising advertisements, articles, or notices published in any newspapers, trade, business or banking circulars, journals, or magazines, that concern, refer or relate to the closure of the HSBC Guam office.

25. All DOCUMENTS concerning, relating to, or comprising advertisements, articles or notices published in any Guam newspapers, trade, business or banking circulars, journals, or magazines, that concern, refer or relate to banking services or loans offered by the HSBC Guam office from January 1, 1999 to the date of this request.

26. All DOCUMENTS concerning, relating to or comprising brochures, printouts, handouts or leaflets that concern, refer or relate to banking services or loans offered by the HSBC Guam office from January 1, 1999 to the date of this request.

27. All DOCUMENTS concerning, relating to, or comprising HSBC's policies or procedures for the workout of HSBC loans, that were in effect at HSBC from January 1, 1999 to the date of this request.

28. All DOCUMENTS concerning, relating to, or comprising HSBC's policies or procedures for the sale of HSBC loans to any person or entity, that were in effect at HSBC from January 1, 1999 through the date of this request.

29. All DOCUMENTS concerning, relating to, or comprising the "formal proposal" referenced in PMC01048, attached hereto as Exhibit A.

30. All DOCUMENTS concerning, relating to, or comprising the "write back" referenced in PMC01048, attached hereto as Exhibit A.

31. All DOCUMENTS concerning, referring, or relating to the tax treatment of HSBC's sale of the Sadhwani Loan, including but not limited to, profit and loss statements, balance sheets, compilations, annual reports, financial statements and tax returns.

Dated: August 27, 2004.

ARRIOLA, COWAN & ARRIOLA
Attorneys for Plaintiffs Alan Sadhwani, et al.

By: 
ANITA P. ARRIOLA

CERTIFICATE OF SERVICE

I, ANITA P. ARRIOLA, hereby certify that on August 27, 2004, I caused to be served via hand delivery, **PLAINTIFFS' SIXTH SET OF REQUESTS FOR PRODUCTION OF DOCUMENTS** to:

**Jacques G. Bronze, Esq.
Bronze & Tang, P.C.
2nd Floor, BankPacific Building
825 S. Marine Drive
Tamuning, Guam 96913**

Dated this 27th day of August, 2004.



ANITA P. ARRIOLA

ARRIOLA, COWAN & ARRIOLA, HAGATNA, GUAM 96910

Reference Number : GU-HSBC-001-100023
Serial Number : 043

Printing Time : 26JUN03 14:54:54

Checksum : 16727

STAMPED CONFIDENTIAL
DOWN ERROR

10. Branch Comments3

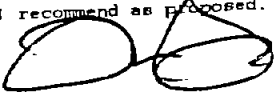
K SADHWANI'S INC (KSI) - Grade 6

This REF is being raised to request an extension of the review date from 30JUN03 to 31AUG03 pending completion of the KSI loan sale to a third party. The terms of the sale are currently being negotiated and such will be requested for approval before final agreement.

By selling this loan, we transfer the default risk to the third party. It is our belief that in the near term the Borrower will ultimately default. The Bank also avoids negotiations with a difficult, slow-to-action Borrower.

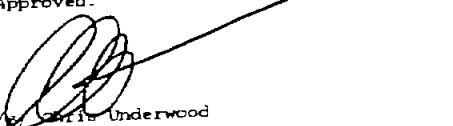
We will submit our formal proposal for the sale of the loan once the terms are finalized with the third party, which is expected to be by AUG03. The existing provision is deemed ample given the expected sale price of the loan at USD2.75m, which would produce an estimated write back of USD631k.

I recommend as proposed.


/s/ F. Granillo
AVP CCU

MANAGER'S COMMENTS

Approved.


Chris Underwood
Manager GUM & SAI

initial

signature

EXHIBIT

A

PENGAD 800-631-6983

PMCO1048

JOAQUIN C. ARRIOLA
ANITA P. ARRIOLA
ARRIOLA, COWAN & ARRIOLA

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Hagåtña, Guam 96910
Telephone: (671) 477-9730/33
Telecopier: (671-) 477-9734

Law Offices

ARRIOLA, COWAN, ARRIOLA

JUL 14 2004

RECEIVED

BY: Cd TIME: 10:40am

Counsel for Plaintiffs Alan Sadhwani, Laju Sadhwani,
and K. Sadhwani's Inc., a Guam corporation

IN THE SUPERIOR COURT OF GUAM

ALAN SADHWANI, LAJU
SADHWANI, and K. SADHWANI'S
INC., a Guam corporation,

Plaintiffs,

vs.

PARADISE MARINE CORPORATION,
a Guam Corporation,

Defendant.

CIVIL CASE NO. CV0739-04

**TEMPORARY RESTRAINING
ORDER AND FOR AN ORDER TO
SHOW CAUSE WHY
PRELIMINARY INJUNCTION
SHOULD NOT ISSUE**

This matter came on for hearing on plaintiffs Alan Sadhwani, et al.'s ("Sadhwani") Ex Parte Motion for Temporary Restraining Order and Order to Show Cause Why Preliminary Injunction Should Not Issue on July 2, 2004. Present were Anita P. Arriola, counsel for plaintiffs, and Duncan McCully, counsel for defendant Paradise Marine Corporation. After considering the Verified Complaint for Temporary Restraining Order, Preliminary and Permanent Injunctions, Declaratory Judgment; and Damages; the Ex Parte Motion and supporting Declarations; and defendant's Opposition to the Ex Parte Motion and supporting Declaration, and upon oral argument of counsel at the hearing on the motion, the court finds good cause for the following:

IT IS HEREBY ORDERED that defendant Paradise Marine Corporation, its successors, agents, assignees, principals, servants, employees and representatives, and persons acting in concert with them, are enjoined and restrained from collecting any and all rents, income or receivables from

ARRIOLA, COWAN & ARRIOLA, HAGATNA, GUAM 96910

EXHIBIT

3

the following tenants: Deloitte & Touche, LLC, Kim Chee Warehouse & Grocers, Water and Ice Express, Mic Mac Ready to Wear, OPS Bakery, Imagine This - Imagine That and Lin's Jewelry.

IT IS FURTHER ORDERED that defendant Paradise Marine Corporation, its successors, agents, assignees, principals, servants, employees and representatives, and persons acting in concert with them, are enjoined and restrained from taking any further action to foreclose upon the real property mortgages given by K. Sadhwani, Inc. To the Hongkong and Shanghai Banking Corporation through exercise of the private power of sale provisions within those mortgages.

IT IS FURTHER ORDERED that all rents, income or receivables due to plaintiffs from the above tenants shall be paid directly to the Court until further order of the court;

IT IS FURTHER ORDERED that the plaintiffs motion for preliminary injunction shall be heard before the Honorable Katherine A. Maramba on ^{Aug 13} ~~July 12~~, 2004 at 9 a.m.; and

IT IS FURTHER ORDERED that this Temporary Restraining Order shall expire on July 12, 2004 at 5:00 p.m. unless it is further extended by order of this Court. This order was issued and effective as of 5:00 p.m. on July 2, 2004.

DATED: ~~JUL 12 2004~~

Signed By:
KATHERINE A. MARAMBA

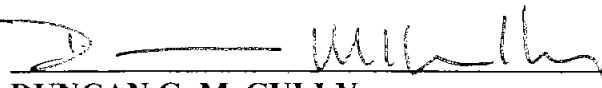
JUDGE, SUPERIOR COURT OF GUAM

Submitted By:



ANITA P. ARRIOLA
Counsel for Plaintiffs

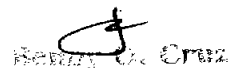
Approved as to form:



DUNCAN G. McCULLY
Counsel for Defendant

I do hereby certify that the foregoing is a true and correct copy of the original filed in the office of the Clerk of the Superior Court of Guam. Dated this 13th day of July, 2004.

JUL 13 2004


Clerk

HSBC Holdings plc

*Annual Report
and Accounts*

The world's local bank



Financial Highlights

HSBC's Financial Statements and Notes thereon, as set out on pages 233 to 366, are prepared in accordance with UK Generally Accepted Accounting Principles ('UK GAAP'). HSBC uses the US dollar as its reporting currency because the US dollar and currencies linked to it form the major currency bloc in which HSBC transacts its business. As HSBC is listed on the New York Stock Exchange, it also reconciles certain financial information to US Generally Accepted Accounting Principles ('US GAAP'), which differ in certain respects from UK GAAP as explained on page 326 and reconciled in Note 50 of the 'Notes on the Financial Statements'. Unless otherwise stated, the numbers presented in this document have been prepared in accordance with UK GAAP.

HSBC judges its own performance by comparing returns before goodwill amortisation on cash invested as HSBC believes this gives an important measure of its underlying performance and facilitates comparison with its peer group. Profit before goodwill amortisation is derived by adjusting reported earnings to eliminate the impact of the amortisation of goodwill arising on acquisitions. The derivation of non-GAAP measures from the equivalent reported measures is explained in the 'Footnotes to Financial Highlights' on page 4.

	2003 US\$m	2002 US\$m
For the year (excluding goodwill amortisation)		
Operating profit before provisions ¹	19,990	11,641
Profit on ordinary activities before tax ²	14,401	10,513
Profit attributable to shareholders ²	10,359	7,102
For the year (as reported)		
Operating profit before provisions	18,540	10,787
Profit on ordinary activities before tax	12,816	9,650
Profit attributable to shareholders	8,774	6,239
Dividends	(6,532)	(5,001)
At year-end		
Shareholders' funds ³	74,473	51,765
Capital resources	74,042	57,430
Customer accounts and deposits by banks	643,556	548,371
Total assets ³	1,034,216	758,605
Risk-weighted assets	618,662	430,551
	US\$	US\$
Per ordinary share⁴		
Basic earnings	0.84	0.67
Earnings excluding goodwill amortisation ⁵	0.99	0.76
Diluted earnings	0.83	0.66
Dividends	0.60	0.53
Net asset value at year end	6.79	5.46
	At 31 December 2003	At 31 December 2002
Share information		
US\$0.50 ordinary shares in issue	10,960m	9,481m
Market capitalisation	US\$172bn	US\$105bn
Closing market price per ordinary share:		
– London	£8.78	£6.87
– Hong Kong	HK\$122.50	HK\$85.25
Closing market price per American Depositary Share ('ADS') ⁶	US\$78.82	US\$54.98
	HSBC	Benchmark
Total shareholder return to 31 December 2003 ⁷		
– over 1 year	136	132
– since 1 January 1999 ⁸	211	126

For the above footnotes, see 'Footnotes to Financial Highlights' on page 4.

Financial Highlights (continued)

Capital and performance ratios

	2003 %	2002 %
Capital ratios		
Tier 1 capital	8.9	9.0
Total capital	12.0	13.3
Performance ratios (excluding goodwill amortisation)		
Return on average invested capital ⁹	13.7	12.9
Return on average net tangible equity ^{10,11}	24.7	20.1
Post-tax return on average tangible assets ¹¹	1.21	1.11
Post-tax return on average risk-weighted assets ¹¹	2.07	1.95
Performance ratios (as reported)		
Return on average shareholders' funds ³	13.0	12.4
Post-tax return on average total assets ³	1.01	0.97
Post-tax return on average risk-weighted assets	1.78	1.74
Credit coverage ratios		
Provisions for bad and doubtful debts as a percentage of operating profits before goodwill amortisation and provisions	30.5	11.3
Provisions for bad and doubtful debts as a percentage of average gross customer advances:		
– in aggregate	1.2	0.4
– Consumer Finance (Household) ¹²	5.2	n/a
– other HSBC	0.4	0.4
Total provisions outstanding as a percentage of non-performing loans at year end:		
– in aggregate	91.0	86.7
– Consumer Finance (Household) ¹²	110.5	n/a
– other HSBC	82.1	86.7
Efficiency and revenue mix ratios		
Cost:income ratio (excluding goodwill amortisation) ¹³	51.3	56.2
As a percentage of total operating income:		
– net interest income	62.3	58.1
– other operating income	37.7	41.9
– net fees and commissions	25.3	29.4
– dealing profits	5.3	4.9

Constant currency

Constant currency comparatives in respect of 2002 and 2001, used in the 2003 and 2002 commentaries respectively, are computed by retranslating into US dollars:

- the profit and loss accounts for 2002 and 2001 of non-US dollar branches, subsidiary undertakings, joint ventures and associates at the average rates of exchange for 2003 and 2002 respectively; and
- the balance sheets at 31 December 2002 and 2001 for non-US dollar branches, subsidiary undertakings, joint ventures and associates at the rates of exchange ruling at 31 December 2003 and 2002 respectively.

No adjustment is made to the exchange rates used to translate foreign currency denominated assets and liabilities into the functional currency of any HSBC branches, subsidiary undertakings, joint ventures and associates.

	2003 compared with 2002		2002 compared with 2001	
	As reported %	Constant currency %	As reported %	Constant currency %
Operating income and cost growth				
Net interest income	66	58	5	6
Fees and commissions (net)	33	24	5	4
Dealing profits	66	58	(22)	(23)
Total operating income	54	46	3	3
Administrative expenses (excluding goodwill amortisation)	41	32	2	(4)

For the above footnotes, see 'Footnotes to Financial Highlights' on page 4.

Five-year comparison

	2003 US\$m	2002 ³ US\$m	2001 ³ US\$m	2000 ³ US\$m	1999 US\$m
At year-end					
Share capital	5,481	4,741	4,678	4,634	4,230
Shareholders' funds	74,473	51,765 ³	45,688 ³	45,631	34,402 ¹⁷
Capital resources ¹⁴	74,042	57,430	50,854	50,964	44,270
Customer accounts	573,130	495,438	449,991	427,069	359,972
Undated subordinated loan capital	3,617	3,540	3,479	3,546	3,235
Dated subordinated loan capital	17,580	14,831	12,001	12,676	12,188
Loans and advances to customers ¹⁵	528,977	352,344	308,649	289,837	253,567
Total assets	1,034,216	758,605 ³	695,545 ³	673,503	569,908 ¹⁷
For the year					
Net interest income	25,598	15,460	14,725	13,723	11,990
Other operating income	15,474	11,135	11,163	10,850	9,012
Operating profit before provisions	18,540	10,787	10,484	10,486	9,653
Provisions for bad and doubtful debts	(6,093)	(1,321)	(2,037)	(932)	(2,073)
Profit on ordinary activities before tax	12,816	9,650	8,000	9,775	7,982
Profit attributable to shareholders	8,774	6,239	4,992	6,457	5,408
Dividends	(6,532)	(5,001)	(4,467)	(4,010)	(2,872)
	US\$	US\$	US\$	US\$	US\$
Per ordinary share⁴					
Basic earnings	0.84	0.67	0.54	0.74	0.65
Earnings excluding goodwill amortisation ⁵	0.99	0.76	0.63	0.80	0.66
Diluted earnings	0.83	0.66	0.53	0.73	0.65
Dividends	0.60	0.53	0.48	0.435	0.34
Net asset value at year end	6.79	5.46	4.88	4.92	3.95
Share information					
US\$0.50 ordinary shares in issue	10,960m	9,481m	9,355m	9,268m	8,458m
	%	%	%	%	%
Financial ratios					
Dividend payout ratio ¹⁶	60.6	69.7	76.2	54.4	51.5
Post-tax return on average total assets	1.01	0.97 ³	0.86 ³	1.31	1.20
Return on average shareholders' funds	13.0	12.4 ³	10.6 ³	15.8	17.5
Average shareholders' funds to average total assets	7.06	6.91 ³	6.87 ³	6.64	6.24
Capital ratios					
Tier 1 capital	8.9	9.0	9.0	9.0	8.5
Total capital	12.0	13.3	13.0	13.3	13.2
Foreign exchange translation rates to US\$					
Closing – US\$1:£	0.560	0.620	0.690	0.670	0.620
– US\$1:€	0.793	0.953	1.130	1.076	0.996
Average – US\$1:£	0.612	0.666	0.695	0.660	0.618
– US\$1:€	0.885	1.061	1.117	1.084	0.943

For the above footnotes, see 'Footnotes to Financial Highlights' on page 4.

Financial Highlights (continued)

US\$ million

Five-year comparison (continued)

Amounts in accordance with US GAAP

	2003 US\$m	2002 US\$m	2001 US\$m	2000 US\$m	1999 US\$m
Income statement for the year					
Net income available for ordinary shareholders.....	7,231	4,900	4,911	6,236	4,889
Other comprehensive income	7,401	5,502	(1,439)	(511)	(776)
Dividends	(6,974)	(4,632)	(4,394)	(3,137)	(2,617)
Balance sheet at 31 December					
Total assets	1,012,023	763,565	698,312	680,076	574,588
Shareholders' funds	80,251	55,831	48,444	48,072	35,930
	US\$	US\$	US\$	US\$	US\$
Per ordinary share					
Basic earnings	0.69	0.52	0.53	0.71	0.59
Diluted earnings	0.69	0.52	0.53	0.70	0.58
Dividends	0.685	0.495	0.48	0.34	0.31
Net asset value at year end	7.32	5.89	5.18	5.19	4.25

Footnotes to 'Financial Highlights'

- 1 Operating profit before provisions and excluding goodwill amortisation can be reconciled to the equivalent reported measure by deducting goodwill amortisation of US\$1,450 million (2002: US\$854 million).
- 2 The profit on ordinary activities before tax and the profit attributable to shareholders excluding, in each case, goodwill amortisation, can be reconciled to the equivalent reported measures by deducting goodwill amortisation, including that attributable to joint ventures and associates, of US\$1,585 million (2002: US\$863 million).
- 3 The figures for shareholders' funds, total assets and average total assets for 2002 and, in the Five-year comparison, 2001 and 2000, have been restated to reflect the adoption of Urgent Issues Task Force ('UITF') Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 of the 'Notes on the Financial Statements' on pages 239 to 240. The 1999 comparatives in the Five-year comparison have not been restated as any adjustment would not significantly alter the figures. Therefore, any benefit to be obtained from restatement would be outweighed by the cost of the exercise.
- 4 Per ordinary share amounts reported here and throughout the document reflect the share capital reorganisation on 2 July 1999.
- 5 Earnings excluding goodwill amortisation per ordinary share are calculated by dividing profit excluding goodwill amortisation attributable to shareholders (as explained in note 2 above) by the weighted average number of ordinary shares in issue and held outside the Group during the year, which is the same number used in the calculation of basic earnings per share on a reported basis.
- 6 Each ADS represents 5 ordinary shares.
- 7 Total shareholder return ('TSR') is defined on page 218.
- 8 HSBC's governing objective for its five year strategic plan ended 31 December 2003 was to beat the TSR of its defined peer group benchmark. An additional target objective was set to achieve a doubling of TSR over the five years beginning on 1 January 1999.
- 9 The definition of return on invested capital and a reconciliation to the equivalent GAAP measures are set out on page 58.
- 10 The return on average net tangible equity is defined as attributable profit excluding goodwill amortisation of US\$10,359 million (2002: US\$7,102 million) divided by average shareholders' funds after deduction of average purchased goodwill of US\$42.0 billion (2002: US\$35.3 billion).
- 11 Average net tangible equity and average tangible assets are calculated by deducting average purchased goodwill net of cumulative amortisation of US\$25.4 billion (2002: US\$15.0 billion). The calculation of average risk-weighted assets is the same for both the reported basis and that excluding goodwill amortisation.
- 12 Annualised on the basis of the period of ownership in the year of acquisition.
- 13 The cost:income ratio, excluding goodwill amortisation, is defined as operating expenses excluding goodwill amortisation of US\$1,450 million (2002: US\$854 million) divided by operating income.
- 14 Capital resources are defined on page 173. A detailed computation for 2003 and 2002 is provided on page 175.
- 15 Net of suspended interest and provisions for bad and doubtful debts.
- 16 Dividends per share expressed as a percentage of earnings per share (excluding goodwill amortisation).
- 17 Apart from shareholders' funds and total assets at the 1999 year-end, the 1999 comparatives have not been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred tax' in 2002 as any adjustment made would not significantly alter the figures. Therefore, any benefit to be obtained from restatement would be outweighed by the cost of the exercise.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential', 'reasonably possible' and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events.

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC's Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These factors include, among others:

- changes in general economic conditions in the markets in which HSBC operates, such as:
 - changes in foreign exchange rates, in both market exchange rates (for example, between the US dollar and the pound sterling) and government-established exchange rates (for example, between the Hong Kong dollar and the US dollar);
 - volatility in interest rates;
 - volatility in equity markets, including in the smaller and less liquid trading markets in Asia and South America;
 - lack of liquidity in wholesale funding markets in periods of economic or political crisis;
 - volatility in national real estate markets, particularly consumer-owned real estate markets;
 - continuing or deepening recessions and employment fluctuations; and
 - consumer perception as to the continuing availability of credit, and price competition in the market segments served by HSBC.
- changes in governmental policy and regulation, including:
 - the monetary, interest rate and other policies of central banks and bank and other regulatory authorities, including the UK Financial Services Authority, the Bank of England, the Hong Kong Monetary Authority, the US Federal Reserve, the European Central Bank, the People's Bank of China and the central banks of other leading economies and markets where HSBC operates;
 - expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
 - initiatives by local, state and national regulatory agencies or legislative bodies to revise the practices, pricing or responsibilities of financial institutions serving their consumer markets;
 - changes in personal bankruptcy legislation in the principal markets in which HSBC operates and the consequences thereof;
 - general changes in governmental policy that may significantly influence investor decisions in particular markets in which HSBC operates;
 - other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for HSBC's products and services;
 - the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements;

Cautionary Statement Regarding Forward-Looking Statements (continued)

- the ability of the Government of Argentina to attract international support for the measures necessary to restructure its debt obligations and create a viable financial system with stability in monetary, fiscal and exchange rate policies; and
- the effects of competition in the markets where HSBC operates including increased competition resulting from new types of affiliations between banks and financial services companies, including securities firms, particularly in the United States.
- factors specific to HSBC:
 - the success of HSBC in adequately identifying the risks it faces, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, HSBC's ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and
 - the success of HSBC in integrating the recently acquired Grupo Financiero Bital S.A. de C.V. (now Grupo Financiero HSBC S.A. de C.V. ('HSBC Mexico')), Household International, Inc. ('Household'), Losango Promotora de Vendas, and The Bank of Bermuda Limited.

Information About the Enforceability of Judgements made in the United States

HSBC Holdings is a public limited company incorporated in England and Wales. Most of HSBC Holdings' Directors and executive officers live outside the United States. As a result, it may not be possible to serve process on such persons or HSBC Holdings in the United States or to enforce judgements obtained in US courts against them or HSBC Holdings based on civil liability provisions of the securities laws of the United States. There is doubt as to whether English courts would enforce:

- certain civil liabilities under US securities laws

in original actions; or

- judgements of US courts based upon these civil liability provisions.

In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom. The enforceability of any judgement in the United Kingdom will depend on the particular facts of the case as well as the laws and treaties in effect at the time.

Exchange Controls and Other Limitations Affecting Equity Security Holders

There are currently no UK laws, decrees or regulations which would prevent the transfer of capital or remittance of distributable profits by way of dividends and other payments to holders of HSBC Holdings' equity securities who are not residents of the United Kingdom. There are also no restrictions

under the laws of the United Kingdom or the terms of the Memorandum and Articles of Association of HSBC Holdings concerning the right of non-resident or foreign owners to hold HSBC Holdings' equity securities or, when entitled to vote, to do so.

Description of Business

11/11/2003

Introduction

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$172 billion at 31 December 2003.

Headquartered in London, HSBC operates through long-established businesses and has an international network of over 9,500 offices in 79 countries and territories in five regions: Europe; Hong Kong; the rest of Asia-Pacific, including the Middle East and Africa; North America; and South America. Within these geographical regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. HSBC manages its business through the following customer groups: Personal Financial Services; Commercial Banking; Corporate, Investment Banking and Markets; and Private Banking. Whilst part of Personal Financial Services, the consumer finance operations of Household are currently a distinct business and have been separately identified accordingly. Services are delivered through businesses which usually operate as domestic banks, typically with large retail deposit bases and strong liquidity and capital ratios. In North America, Household is one of the largest consumer finance companies in the US, and is substantially funded in the wholesale market. By using HSBC's extensive technological links, businesses are able to access its wide range of products and services and adapt them to local customer needs.

The establishment of HSBC and its hexagon symbol as a uniform, international brand has ensured that it has become an increasingly familiar sight across the world.

History and development

The founding member of HSBC, The Hongkong and Shanghai Banking Corporation Limited ('The Hongkong and Shanghai Banking Corporation'), was established in Hong Kong and Shanghai in 1865. The bank expanded rapidly, with an emphasis on building up representation in China and the rest of the Asia-Pacific region, whilst also establishing a presence in the major financial and trading centres in Europe and America.

In the mid-1950s, The Hongkong and Shanghai Banking Corporation embarked on a strategy of pursuing profitable growth through acquisition as well as organic development – a combination that has remained a key feature of HSBC's approach ever since.

As each acquisition has been made, HSBC has focused on integrating its newly acquired operations with its existing businesses with a view to maximising the synergy between the various components. Key to this integration process is to blend local and international expertise.

The most significant developments are described below. Other acquisitions in 2003 are discussed in the section headed 'Business highlights in 2003' under the relevant geographical region on pages 15 to 26.

The Hongkong and Shanghai Banking Corporation purchased The Mercantile Bank of India Limited and The British Bank of the Middle East (now HSBC Bank Middle East Limited) in 1959. In 1965, The Hongkong and Shanghai Banking Corporation acquired a 51 per cent interest (subsequently increased to 62.14 per cent) in Hang Seng Bank Limited ('Hang Seng Bank'), consolidating its position in Hong Kong. Hang Seng Bank is the second-largest listed bank in Hong Kong by market capitalisation.

From the beginning of the 1980s, The Hongkong and Shanghai Banking Corporation began to focus its acquisition strategy on the UK. In 1987, it purchased a 14.9 per cent interest in Midland Bank plc, now HSBC Bank plc ('HSBC Bank'), one of the UK's principal clearing banks. In 1991, HSBC Holdings plc was established as the parent company of HSBC and, in 1992, HSBC Holdings purchased the remaining interests in HSBC Bank. In connection with this acquisition, HSBC's head office was transferred from Hong Kong to London in January 1993. To expand its base in the euro zone, in October 2000 HSBC completed its acquisition of 99.99 per cent of the issued share capital of CCF S.A. ('CCF'), a major French banking group.

The Hongkong and Shanghai Banking Corporation entered the US market in 1980 by acquiring a 51 per cent interest in Marine Midland Banks, Inc. (now HSBC USA Inc.). The remaining interest was acquired in 1987.

Description of Business (continued)

In 1981, The Hongkong and Shanghai Banking Corporation incorporated its extant Canadian operations. HSBC Bank Canada has since made numerous acquisitions, expanding rapidly to become the largest foreign-owned bank in Canada and the seventh-largest overall at 31 December 2003.

In 1997, HSBC assumed selected assets, liabilities and subsidiaries of Banco Bamerindus do Brasil S.A. following the intervention of the Central Bank of Brazil, and completed the acquisition of Grupo Roberts in Argentina.

In December 1999, HSBC acquired Republic New York Corporation, subsequently merged with HSBC USA Inc., and Safra Republic Holdings S.A. (together 'Republic').

In 2002, HSBC made further steps in expanding its presence in North America, completing the acquisition of 99.59 per cent of Grupo Financiero Bital S.A. de C.V. (now 'HSBC Mexico'), the fifth-largest banking group in Mexico measured by deposits and assets.

Mainland China remains a critical long-term growth area for the Group. In 2002, HSBC completed the acquisition of a 10 per cent equity stake in Ping An Insurance Company of China Limited. Ping An Insurance is the second-largest life insurer and the third-largest insurer in mainland China.

In March 2003, HSBC acquired Household International, Inc. ('Household') for a consideration of approximately US\$14.8 billion. The acquisition has significantly increased the contribution from HSBC's North American business. In particular, Household offers HSBC national coverage in the US for consumer lending, credit cards and credit insurance through varied distribution channels, including over 1,300 branch offices in 45 states.

In October 2003, HSBC agreed to acquire The Bank of Bermuda Limited for US\$1.3 billion, adding a strong position in the local banking market in Bermuda and significant scale and geographical spread to HSBC's existing international fund administration, private banking, trust and payments, and cash management businesses. The acquisition was completed on 18 February 2004.

In December 2003, HSBC acquired substantially all of Lloyds TSB Group plc's onshore and offshore businesses and assets related to Brazil for US\$745 million. Included in the transaction was the

acquisition of all the shares of Banco Lloyds TSB S.A. – Banco Múltiplo and a consumer finance company, Losango Promotora de Vendas ('Losango').

Outlook

In 2004, the Group has already seen growth in consumer spending and borrowing, in increased merger and acquisition activity, and a modest resumption of growth in demand for equity investment products. The Group also sees improving prospects for economic growth and private sector employment, particularly in the US and in Hong Kong.

In emerging markets, such as Brazil, Mexico and the ASEAN countries, relatively stable currencies and historically low interest rates are promoting consumer activity, fuelling domestic growth and reducing export dependence. China plays an increasingly important role, not only through its export growth, but also as the fastest growing market for commodity producing countries and for those developed countries which are supplying the technology, equipment and services to support its economic expansion.

The Group is conscious of the changing nature of the global economy and the speed of change and continues to monitor the impact on sentiment and consumer spending of globally strong property prices, which continue to rise faster than underlying wage growth in many developed markets. While such rises are understandable in the context of low interest rates and limited appetite for alternative investment opportunities, in the long run property prices have to be linked to income growth.

The picture for 2004 therefore is one of improving sentiment and stronger growth prospects in the near term, but with the potential risk of an unexpected shock as a result of circumstances which would cause a spike in either short-term interest rates or commodity prices.

Against this backdrop HSBC expects to concentrate on building its businesses steadily. HSBC expects to see lending to consumers around the world rise as a proportion of our total lending, with the emphasis on real estate secured lending. The Group also expect to see business in the US grow in importance to HSBC as the potential of the

Household acquisition is realised and as the US economy shows its flexibility and responds to the lower value of the dollar.

Strategy

At the end of 1998, HSBC launched Managing for Value, a five-year plan to take the Group into the 21st Century. Over the life of the plan, HSBC made significant progress against the eight strategic imperatives included therein.

Under Managing for Value, HSBC established HSBC and its hexagon symbol as a globally recognised brand and greatly increased the scope and penetration of its wealth management services in a number of key markets. Corporate, Investment Banking and Markets operations were completely integrated, enabling the Group to pursue a strategy of seamlessly servicing the needs of the largest international companies and institutions, and build corporate origination and cross-selling capabilities. A risk-adjusted cost of capital methodology was introduced and applied. (For the application of economic profit in HSBC and its results for 2003 see page 58.) Good progress was made against the other strategic imperatives announced under the initiative.

In financial terms, HSBC achieved its objective of doubling Total Shareholder Return ('TSR') and beating the TSR performance of a peer group of leading banks over the period. TSR is a measure of the growth in the value of a share over a specific period with dividends reinvested. Starting with a benchmark of 100 on 31 December 1998, HSBC's TSR more than doubled to 211 on 31 December 2003, while that of its peer group stood at 126.

As HSBC worked on its strategic plan for the next five years it was clear that there were many opportunities to develop HSBC's businesses further, and also that HSBC could build more from the structural and business changes achieved in the recent past. For instance, during the five years of Managing for Value, HSBC made investments in the US (Republic and Household), France (CCF) and Mexico (HSBC Mexico), as a result of which an additional 100,000 employees joined the Group. This expansion changed the profile of HSBC's business, increased the complexity of the Group and brought new management and business challenges as well as exciting opportunities.

The new plan, developed to build on the achievements of the Managing for Value strategy and take the Group forward, is now being implemented. This plan, called Managing for Growth, was launched at the end of 2003. It provides HSBC with a blueprint for growth and development during the next five years. The plan is an evolutionary, not revolutionary, strategy. It builds on HSBC's strengths and it addresses the areas where further improvement is considered both desirable and attainable.

Management's vision for the Group remains unchanged: HSBC aims to be the world's leading financial services company. In this context, 'leading' means preferred, admired and dynamic, and being recognised for giving the customer a fair deal. HSBC will strive to secure and maintain a leading position within each of its customer groups in selected markets.

HSBC will remain focused on growing its TSR. In an era of low interest rates and low nominal growth rates, HSBC remains committed to exceeding a benchmark based on peer group comparison. For full details of the benchmark, see page 217. The peer group of banks has been updated to include HSBC's current principal competitors, and HSBC will chart its TSR progress on a three-year rolling basis and over the five-year plan period.

HSBC's core values are integral to its strategy, and communicating them to shareholders, customers and employees is intrinsic to the plan. These values comprise a preference for long-term, ethical client relationships; high productivity through teamwork; a confident and ambitious sense of excellence; being international in outlook and character; prudence; creativity and strong marketing.

In the plan, HSBC also recognises its corporate social responsibility ('CSR'), which is essential to sustaining the Group's long-term success in the community. HSBC has always had a strong sense of corporate social responsibility, and believes that there is no fundamental conflict between being a good corporate citizen and being sustainably profitable. Moreover, the pressures to comply with public expectations across a wide spectrum of social, ethical and environmental issues are growing rapidly. The strategy therefore calls for a renewed recognition of HSBC's wider obligations to society and for increased external communication of the Group's CSR policies and performance, particularly on education and the environment, which will remain

Description of Business (continued)

the principal beneficiaries of HSBC's philanthropic activities.

HSBC's new plan is led by customer groups, and specific strategies will be implemented for each of them. The expression 'customer group' is new in 2003. Previously 'customer groups' were called 'lines of business', but HSBC believes the new term reinforces more accurately to all its employees the Group's customer focus.

The acquisition of Household in 2003 highlighted the importance within Personal Financial Services of a distinctive customer group, Consumer Finance, to augment HSBC's existing activities in Personal Financial Services. HSBC's other customer groups are Corporate, Investment Banking and Markets; Commercial Banking; and Private Banking.

Key elements in achieving HSBC's objectives for its customer groups will be accelerating the rate of growth of revenue; developing the brand strategy further; improving productivity; and maintaining the Group's prudent risk management and strong financial position. Developing the skills of HSBC's staff will also be critical and it will be necessary to ensure that all employees understand how they can contribute to the successful achievement of the Group's objectives. Employees who achieve this contribution will be rewarded accordingly.

Operating management will continue to be organised geographically under four regional intermediate head offices, with business activities concentrated in locations where growth and critical mass are to be found.

The plan contains eight strategic imperatives:

- Brand: make HSBC and its hexagon symbol one of the world's leading brands for customer experience and corporate social responsibility;
- Personal Financial Services ('PFS'): drive growth in key markets and through appropriate channels to make HSBC the strongest global player in PFS;
- Consumer Finance: extend HSBC's new business to existing customers and penetrate new markets;
- Corporate, Investment Banking and Markets: accelerate growth through enhanced capital markets and advisory capabilities focused on the client;

- Commercial Banking: make the most of HSBC's international customer base through effective customer relationship management and improved product offering in all the Group's markets;
- Private Banking: serve the Group's highest value personal clients around the world, utilising the investments already made;
- Attract, develop and motivate HSBC's people, rewarding success and rejecting mediocrity; and
- TSR: fulfil HSBC's TSR target by achieving strong competitive performances in earnings per share growth and efficiency.

Employees and management

At 31 December 2003, HSBC's customers were served by 232,000 employees (including part-time employees) worldwide, compared with 192,000 at 31 December 2002 and 180,000 at 31 December 2001. The main centres of employment are the UK with 56,000 employees, the US (43,000), Hong Kong (24,000), Brazil (25,000), Mexico (18,500) and France (14,000). HSBC negotiates with recognised unions, and estimates that approximately 44 per cent of its employees are unionised. The highest concentrations of union membership are in Brazil, France, India, Malaysia, Malta, Mexico, the Philippines, Singapore and the UK. HSBC has not experienced any material disruptions to its operations from labour disputes during the past five years.

In support of its new strategy, HSBC continues to focus on attracting, developing and motivating the very best individuals. Emphasis is therefore given to performance management; reward; talent management, including graduate recruitment and international secondments; diversity; and learning and development. Ensuring that employee satisfaction with the working experience is kept as high as possible is seen as beneficial to shareholders, employees and customers alike.

HSBC is proud of its diverse workforce, which is able to communicate with HSBC's customers in local languages and dialects across 79 countries and territories. A continuing focus on policies that encourage an inclusive working environment and the development of career opportunities for all, regardless of ethnicity, gender or grade, is a key part of positioning HSBC as an employer of choice.

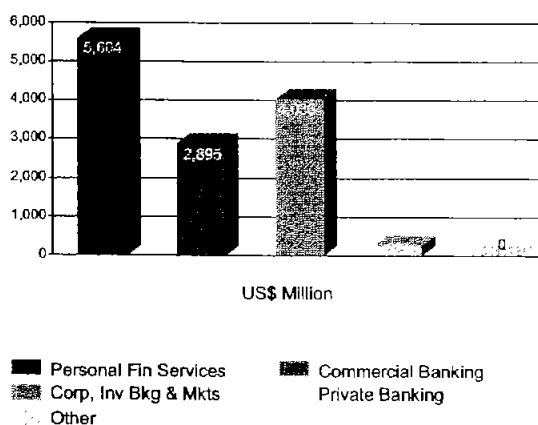
HSBC operates in a highly competitive and international business environment and as such is obliged to manage its costs realistically, responding to the availability of talent pools which are proven to be both efficient and cost effective. This can lead to the migration of tasks to different geographical locations as education levels improve, and as investments in technology and telecommunications facilitate access to those locations. As a result, job losses can arise. HSBC has a good record of communicating openly and sensitively in these circumstances and of reassigning employees and minimising compulsory redundancies, wherever possible.

The quality of HSBC's employees represents a significant competitive advantage. The international mix of staff, working in a meritocracy, enables HSBC to resource operations with employees who have a detailed knowledge of local markets, whilst maintaining a global perspective. To maintain this balance, international mobility is seen as vital to sharing best practice and is actively encouraged and managed. HSBC promotes and recruits the most able and attaches great importance to cultivating its own talent. It values teamwork and collective management. Senior management succession is planned to be as seamless as possible.

Customer Groups

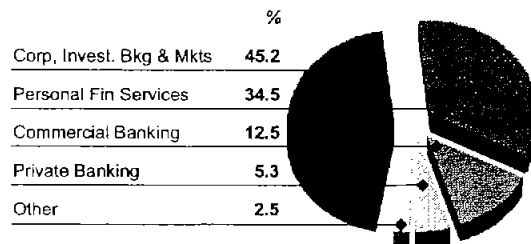
Profit before tax by customer group

Year ended 31 December 2003



Total assets¹ by customer group

Year ended 31 December 2003



¹ Excludes Hong Kong Government certificates of indebtedness.

Personal Financial Services

Personal Financial Services provides some 39 million individual and self-employed customers with a wide range of banking and related financial services. Customer Relationship Management ('CRM') systems and processes are used by HSBC employees to recognise and fulfil customer needs by identifying appropriate products and services and delivering them to the customer through their channel of preference. Examples include current, cheque and savings accounts; loans and home finance; cards; payments; insurance; and investment services, including securities trading. Insurance products sold and distributed by HSBC through its branch networks include loan and health protection; life, property, casualty and health insurance; and pensions. HSBC acts as both a broker and an underwriter, and sees continuing opportunities to deliver insurance products to its personal customer base.

Personal Financial Services are increasingly delivered via self-service terminals, the telephone and the internet. Comprehensive financial planning services, covering customers' investment, retirement, personal and asset protection needs are offered through specialist financial planning managers.

High net worth individuals and their families who choose the differentiated services offered within Private Banking are not included in this segment.

The most valuable of the 39 million Personal Financial Service customers worldwide are offered HSBC *Premier*. HSBC currently has more than 880,000 HSBC *Premier* customers, who have access to more than 250 specialised *Premier* centres located in 31 countries. In addition to the standard range of personal banking products and services, HSBC

Description of Business (continued)

Premier customers receive dedicated relationship management and 24 hour priority telephone access and global travel assistance. In 2003 HSBC *Premier* International Services were introduced in eight countries, providing seamless account opening and credit history transfer across borders for HSBC *Premier* customers.

Consumer Finance

Within Personal Financial Services, Household's operations in the US, the UK and Canada make credit available to customer groups not well catered for by traditional banking operations, facilitate point of sale credit in support of retail trading purchases and support major affiliate credit card programmes. At 31 December 2003 Household had over 60 million customers with total gross advances of US\$121.7 billion. Consumer Finance products are offered through the following businesses:

Household's **consumer lending** business is one of the largest sub-prime home equity originators in the US, marketed under the HFC and Beneficial brand names through a network of over 1,300 branches in 45 states, direct mail, telemarketing, strategic alliances and the internet. 'Sub-prime' is a US categorisation which describes customers who have limited credit histories, modest incomes, high debt-to-income ratios, high loan-to-value ratios (for real estate secured products) or have experienced credit problems caused by occasional delinquencies, prior charge-offs, bankruptcy or other credit related actions. Consumer lending products include secured and unsecured loans such as first and second lien closed-end mortgages, open-ended home equity loans, personal loans and retail finance contracts.

Household's **mortgage services** business purchases first and second lien residential mortgage loans from a network of over 200 unaffiliated third party lenders ('correspondents') in the US. Purchases are either of pools of loans ('bulk acquisitions') or individual loan portfolios ('flow acquisitions') made under predetermined underwriting guidelines. Forward commitments are offered to selected correspondents to strengthen relationships and create a sustainable growth channel for this business. Household, through its subsidiary Decision One, also offers mortgage loans referred by mortgage brokers.

Household's **retail services** business is one of the largest providers of third party private label credit cards (or store cards) in the US based on receivables

outstanding, with over 60 merchant relationships and 14 million active customer accounts.

In addition to originating and refinancing motor vehicle loans, Household's **motor vehicle finance** business purchases retail instalment contracts of US customers who do not have access to traditional prime based lending sources. The loans are largely sourced from a network of approximately 5,000 motor dealers.

Household's **credit card services** business is the seventh largest issuer of MasterCard¹ and Visa¹ credit cards in the US, and also includes affiliation cards such as the GM Card ® and the AFL-CIO Union Plus² ® credit card. Also, credit cards issued in the name of Household's Household Bank and Orchard Bank brands are offered to customers underserved by traditional providers, or are marketed primarily through merchant relationships established by the retail services business.

A wide range of **insurance services** is offered by Household to customers in the US, the UK and Canada who are typically under-insured by traditional sources. The purchase of insurance is never a condition of any loan or credit advanced by Household.

The **refund lending** business accelerates access to funds for US taxpayers who are entitled to tax refunds. The business is seasonal with most revenues generated in the first three months of the year.

Household's business in the UK provides mid-market consumers with mortgages, secured and unsecured loans, insurance products, credit cards and retail finance products. It concentrates on customer service through its 216 HFC Bank and Beneficial branches, and finances consumer electronics through its retail finance operations. In Canada, similar products are offered and, deposits are taken through Household's trust operations there.

Commercial Banking

HSBC is one of the world's leading banks in the

1 MasterCard is a registered trademark of MasterCard International, Incorporated and Visa is a registered trademark of Visa USA, Inc.

2 The Union Plus MasterCard and Visa credit card programme is an affinity arrangement with Union Privilege under which credit cards are offered to members of unions affiliated with the American Federation of Labor and Congress of Industrial Organisations ('AFL-CIO').

provision of financial services and products to small and medium-sized businesses, with over 2 million business customers including sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies.

At 31 December 2003, HSBC had total commercial customer deposits of US\$111.5 billion and total commercial customer loans and advances, net of suspended interest and provisions for bad and doubtful debts, of US\$103.5 billion.

The Commercial Banking segment places particular emphasis on multi-disciplinary and geographical collaboration in meeting its commercial customers' needs. This differentiated service allows HSBC to broaden and enhance its offering to its Commercial Banking customers. The range of products includes:

Payments and cash management: HSBC is a leading provider of payments, collections, liquidity management and account services worldwide, enabling financial institutions and corporate customers to manage their cash efficiently on a global basis. HSBC's extensive network of offices and strong domestic capabilities in many countries, including direct access to local clearing systems, enhance its ability to provide high-quality cash management services.

e-banking: A key component of HSBC's provision of financial services to commercial customers is continuing innovation and flexibility in electronic delivery solutions.

Wealth management services: These include advice and products related to savings and investments. They are provided to commercial banking customers and their employees through HSBC's worldwide network of branches and business banking centres.

Insurance: HSBC offers insurance protection, employee benefits programmes and pension schemes designed to meet the needs of businesses and their employees, and to help fulfill the applicable statutory obligations of client companies. These products are provided by HSBC either as an intermediary (broker, agent or consultant) or as a supplier of in-house or third party offerings. Products and services include a full range of commercial insurance, including pension schemes; healthcare schemes; 'key man' life insurance; car fleet; goods in transit; trade credit protection; risk management and insurance due

diligence reviews; and actuarial/employee benefit consultancy.

Trade services: HSBC has more than 130 years of experience in trade services. A complete range of traditional documentary credit, collections and financing products is offered, as well as specialised services such as insured export finance, international factoring and forfaiting. HSBC's expertise is supported by highly automated systems.

Leasing, finance and factoring: HSBC provides leasing, finance (including instalment and invoice finance) and domestic factoring services, primarily to commercial customers in the UK, Hong Kong and France. Special divisions have been established to finance vehicles, plant and equipment, materials handling, machinery and large complex leases.

Corporate, Investment Banking and Markets

HSBC's Corporate, Investment Banking and Markets business provides tailored financial solutions to major government, corporate and institutional clients worldwide. Managed as a global business, this customer group operates a long-term relationship management approach to build a full understanding of clients' financial requirements. Sectoral client service teams comprising relationship managers and product specialists develop financial solutions to meet individual client needs. With dedicated offices in over 50 countries and with access to HSBC's worldwide presence and capabilities, this business serves subsidiaries and offices of these clients on a global basis.

Products and services offered include:

Global Markets: HSBC's operations in Global Markets consist of treasury and capital markets services for supranationals, central banks, corporations, institutional and private investors, financial institutions and other market participants. Products include:

- foreign exchange;
- currency, interest rate, bond, credit, equity and other specialised derivatives;
- government and non-government fixed income and money market instruments;
- precious metals and exchange traded futures;
- equity services, including research, sales and

Description of Business (continued)

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trading for institutional, corporate, private clients and asset management services, including global investment advisory and fund management services; and

- capital raising, both publicly and privately, including debt and equity capital, structured finance and syndicated finance, and distribution of these instruments utilising links with HSBC's global networks.

Global Transaction Banking: This includes international, regional and 'in-country' payments and cash management services; trade services, particularly the specialised 'supply chain' product; and securities services, where HSBC is one of the world's leading custodians providing custody and clearing services and funds administration to both domestic and cross-border investors. Factoring and banknotes services are also provided by specialist units.

Corporate and Institutional Banking: This includes:

- direct lending, including structured finance for complex investment facilities;
- leasing finance with an emphasis on 'large ticket' transactions; and
- deposit-taking.

Global Investment Banking: This comprises:

- corporate finance and advisory services for mergers and acquisitions, asset disposals, stock exchange listings, privatisations and capital restructurings;
- project and export finance services providing non-recourse finance to exporters, importers and financial institutions, and working closely with all major export credit agencies; and
- financing and risk advisory services.

Asset management services: This comprises Asset Management products and services for institutional investors, intermediaries and individual investors and their advisors.

Private Banking

HSBC is one of the world's leading international private banking groups with total client funds under management of US\$169 billion at 31 December 2003. In December 2003, HSBC announced the

adoption of HSBC Private Bank as the worldwide marketing name for its principal private banking business.

Drawing on the strength of the HSBC Group and utilising the best products from the marketplace, Private Banking works with its clients to offer both traditional and innovative ways to manage and preserve wealth whilst optimising returns. Products and services offered include:

Investment services: These comprise both advisory and discretionary investment services. A wide range of investment vehicles is covered, including bonds, equities, derivatives, structured products, mutual funds and hedge funds. Supported by five major advisory centres in Hong Kong, Singapore, Geneva, New York and London, Private Banking selects and validates the most suitable investments for clients' needs and investment strategies.

Global wealth solutions: These comprise planning, trustee and other fiduciary services designed to protect existing wealth and create tailored structures to preserve wealth for future generations. Areas of expertise include trusts, foundations, charitable trusts, private investment companies, insurance vehicles and offshore structures.

Specialist advisory services: Private Banking offers expertise in several specialist areas of wealth management including tax advisory, family office advisory, charities and foundations, media, diamonds and jewellery, and real estate. Such specialist advisers are available to deliver products and services which are tailored to meet the full range of high net worth clients' individual financial needs.

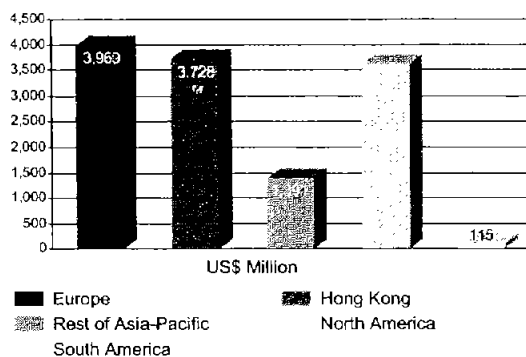
General banking services: These are the ancillary services necessary for the management of clients' finances. They include treasury and foreign exchange, offshore and onshore deposits, tailor-made loans and internet banking. The skills and products available in HSBC's other customer groups, such as corporate banking, investment banking and insurance are also offered to Private Banking clients.

HSBC Private Bank is the marketing name for the private banking business conducted by the principal private banking subsidiaries of the HSBC Group worldwide. Private Banking services are also provided by HSBC Gueyzerler and HSBC Trinkaus & Burkhardt.

Geographical Regions

Profit before tax split by geographical region

Year ended 31 December 2003



Total assets¹ split by geographical region

As at 31 December 2003



¹ Excludes Hong Kong Government certificates of indebtedness.

Business highlights in 2003

For additional information regarding business developments in 2003, as well as comparative information relating to developments in 2002 and 2001, please refer to the 'Financial Review' on pages 36-117.

Europe

HSBC's principal banking subsidiaries in Europe are HSBC Bank, CCF and HSBC Private Bank. HSBC provides a wide range of banking, treasury and financial services to personal, commercial and corporate customers in the UK, France, and across continental Europe, with strong coverage in Malta and Turkey. The bank's strategy is to build long-term relationships attracting customers through value-for-money products and high-quality service.

General

- The remarkable efforts of colleagues in Turkey ensured that business returned to normal following the two bomb blasts on 20 November, 2003 which severely damaged the Head Office and a branch in Istanbul. All branches were operating as normal the day after, with the exception of Beyoglu, which was damaged by the bomb at the British Consulate. Head Office employees relocated to a contingency site and the bank's business recovery planning proved both highly effective and invaluable. In the face of the terrible events, colleagues responded with incredible courage and commitment. HSBC immediately launched support initiatives for the bereaved and those most impacted by the tragic events.
- In March, HSBC added the consumer finance business, HFC Bank plc ('HFC Bank'), to its European network as a consequence of the Household acquisition. HFC Bank provides a range of loan and insurance products to over 3.5 million customers throughout the UK, making it one of the country's largest pure consumer finance businesses.

Personal Financial Services

- For the second year running, HSBC won a major category of the 'What Mortgage?' award in the UK and was the *Mortgage Magazine* winner of the 'Lender of the Year' award. First Direct won the *Mortgage Advisor and Home Buyer Magazine* award for 'Offset Mortgage of the Year'.
- In July, HSBC became the first British high street bank to offer an Islamic mortgage to the estimated UK Muslim population of 1.8 million. The Amanah Home Finance product was launched with the backing of HSBC's Dubai-based Amanah Finance division.
- The *Premier* customer base in the UK grew by 57 per cent to over 280,000. *Premier International*, offering credit history transfer across borders and seamless account opening, was launched in the UK, Jersey (Offshore) and France, while Malta and Greece became the 30th and 31st countries to offer the HSBC *Premier* service.

Description of Business (continued)

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- In July, HSBC launched HSBC InvestDirect, a new online and telephone investment service in the UK. This provides internet and telephone share-dealing and price information across a broad range of UK equities and gilts.
- HSBC in the UK was awarded the coveted 'Five Star Award' from *Money Management* magazine for its regular premium stakeholder pensions.
- HSBC's Private Clients service was ranked the number one UK Independent Financial Adviser ('IFA') in a survey of the top 50 IFAs by *Professional Advisor Magazine* again in 2003.
- In the UK, individual service reviews (a review of a customer's financial service needs) were completed for more than 800,000 customers during the year, an increase of 67 per cent on 2002.
- By the end of 2003, over 2 million customers in the UK were registered for personal internet banking and over 4.7 million customers are now registered for telephone banking.
- Significant progress was made in migrating the UK card issuing business onto Household's credit card system, improving both operational and cost efficiency. HSBC Card Services issued its highest ever number of new credit cards and gained a record number of competitor balance transfers in the UK, boosted by the introduction of a '0%' balance transfer offer in July.
- Following successful participation in the UK 'chip and pin' trials earlier in the year, HSBC will begin issuing chip and pin enabled credit and debit cards in 2004, delivering greater security for card users and reducing exposure to fraud costs.
- HSBC expanded its UK debt counselling service for customers with potential repayment difficulties. The service works with customers to construct plans to manage debt more effectively ahead of possible problems.

Consumer Finance

- In June, HFC Bank announced a long-term agreement with the John Lewis Partnership, the employee-owned UK department store and supermarket group, for the joint management and operation of the John Lewis, Peter Jones and Waitrose store card business. The agreement

involves the transfer of US\$400 million of loans and 1.8 million cardholders to HFC Bank on a revenue-sharing basis. The bank will work with the John Lewis Partnership to enhance its credit card offering to existing and potential customers.

Commercial Banking

- HSBC's commitment to supporting new businesses in the UK helped in the formation of over 102,000 start-ups during the year through its 'Start-up Stars' programme. Additionally, the bank attracted more than 23,000 new competitor balance transfers in 2003.
- The Chartered Institute of Management Accountants ('CIMA') voted HSBC 'Best Small Business Bank' following feedback from its Members in Practice Group. The CIMA recognition follows the Forum of Private Business's announcement of HSBC as the 'Best High Street Clearing Bank for Small Businesses', while the UK 200 Group, a consortium of leading accountants, also named HSBC the best bank for business.
- A new Business Money Manager deposit product was launched in January, attracting an average of 1,700 new accounts per week.
- During 2003, in response to depolarisation in the UK investments market, the bank introduced a number of Commercial Independent Financial Advisors to provide quality independent financial advice to business customers. Based on the success of the initial pilot, the initiative is being expanded across the network. HSBC is now the number one provider of income protection products in the UK.
- HSBC DriverQuote won the award for the 'most innovative e-delivery channel' at the Institute of Financial Services' Financial Innovation Awards 2003. HSBC DriverQuote is the UK bank's online quotation and ordering system and allows businesses to manage their company car policy over the internet.
- HSBC Invoice Finance (UK) Limited was awarded the Best Factoring Award by Trade Finance Magazine in 2003.
- *Business Moneyfacts*, a leading independent finance guide, named HSBC the UK's 'Best Computer Banking Provider'. Over 130,000 customers in the UK registered for business

internet banking in 2003. Fifty-four per cent of all new business customers register for internet banking at the time of account opening. The value of payments generated using business internet banking now exceeds US\$786 million per month. At the Institute of Financial Services' Financial Innovation Awards HSBC won the award for the 'Best Internet Banking Service' and the 'Grand Prix Award' for general innovation in the financial services industry.

- By the end of 2003, over 280,000 UK customers were registered for business telephone banking, utilising the bank's telephone centres in the UK and India. These handle some 3,000 sales and more than 100,000 in-bound calls per month, leaving relationship managers to focus on customer service.
- Group 'Secure E-Payments' remote payments solution successfully launched in June 2003. HSBC's offering has enhanced security features over other providers and includes compliance with MasterCard 'Securecode' and verification by Visa standards for internet merchants.

Corporate, Investment Banking and Markets

- In June, HSBC announced the appointment of co-heads of its global Corporate, Investment Banking and Markets business. Under this new management structure, HSBC combined its origination capabilities with its broad-based trading and sales platform to ensure a seamless banking, financing and investor service for the Group's corporate and institutional clients.
- During 2003, the business strengthened its client coverage model, adopting a sector-based relationship approach to client servicing. The origination businesses were restructured to reflect this sectoral approach and reinforced through selective recruitment. As a result of this investment, HSBC strengthened its corporate client service offering, winning a number of notable contracts.
- In March 2003, the payments and cash management, trade services, securities services and banknotes businesses were brought together under a single management and organisation structure, Global Transaction Banking.
- In September, HSBC commenced the integration of its equities business into the Global Markets

business, creating a single platform for all trading and sales operations. In addition, HSBC announced the restructuring of the research offering so as to align macro, sectoral and price driven research with both institutional investor and corporate client needs.

- In the international bond market, HSBC's market share rose to 4.4 per cent, and in the fourth quarter, HSBC came third in the international bond bookrunner league table.
- HSBC was joint adviser to Safeway on its £3 billion recommended merger with Morrison in the UK and advised LNM Holdings on its US\$1.2 billion acquisition of Polish steel maker Polski Huty Stali.
- The London and Paris dealing rooms were fully integrated with each site taking a lead role in specific product areas. This dual-hub structure in Europe has proved to be a key competitive advantage.
- HSBC won a five-year contract to support British Telecommunications plc's ('BT') corporate card programme. The BT programme is the largest in both the UK and Europe with more than 35,000 corporate cards in issue and an annual spend of over £100 million (US\$164 million).
- The Universities Superannuation Scheme, the UK's third largest pension fund, appointed HSBC Global Fund Services Limited as sole provider of a full range of investment accounting and performance measurement services.
- In response to the anticipated growth in employee share saving schemes and personal retirement schemes, CCF created HSBC CCF Épargne Enterprise, following the acquisition of minority shareholdings in Elysees Gestion and Elysees Fonds.

Private Banking

- HSBC Private Bank was rated among the top three 'Best Global Private Banks' in *Euromoney's* first annual survey of wealth management providers published in January 2004.
- HSBC Private Bank's alternative investments attracted in excess of US\$3 billion new assets, raising total client assets invested in hedge funds

Description of Business (continued)

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to US\$14 billion. In Switzerland, four new hedge funds were launched. HSBC Private Bank was voted 'Best European High Net Worth/Retail Hedge Fund of Funds Product Provider' for 2003 at the 'Hedge Funds Review' and received *Financial Adviser* magazine's gold award as a 'Top Provider' in the long/short funds of funds sector.

- Strategic Investment Solutions ('SIS') was launched in July, providing clients with externally managed multi-manager investment portfolios.
- The Family Office Advisory team launched Consolidation and Analysis of Investment Portfolios providing wealthy clients and their families with a single set of statements covering all their wealth. For clients with more complex portfolios, the service provides a means of developing coherent tax and investment management strategies.
- The Group's four French private banking subsidiaries combined into a single operating unit, HSBC Private Bank France, to create a major player in the French private banking market, with over US\$15 billion in assets under management. The new unit comprises three divisions: resident private clients, international clients and institutional clients.

Other

- HSBC Actuaries and Consultants Limited were appointed as actuarial consultant for a UK trust, The Pensions Trust for Charities & Voluntary Organisations (the 'Pensions Trust'). With assets approaching £2 billion (US\$3.6 billion), the Pensions Trust is the leading multi-employer occupational pension fund for employees involved in the charitable, social, educational, voluntary and not-for-profit sectors.

Hong Kong

HSBC's principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation and Hang Seng Bank, in which HSBC has a 62.14 per cent stake. The Hongkong and Shanghai Banking Corporation is the largest bank incorporated in Hong Kong and is HSBC's flagship bank in the Asia-Pacific region. It is one of Hong Kong's three note-issuing banks, accounting for more than 62 per cent by value of banknotes in

circulation in 2003.

General

- Surveys indicated that HSBC has the strongest brand equity amongst all banks in Hong Kong. With its 'The world's local bank' positioning, HSBC combines a strong global brand with local reach and knowledge.
- To support the recovery of the Hong Kong economy post-SARS (severe acute respiratory syndrome), HSBC launched the 'HSBC Supports Hong Kong' campaign, investing up to HK\$100 million (US\$12.8 million) to provide financial assistance to those affected by atypical pneumonia, and to stimulate local consumer spending. This leadership position received a very positive reaction from all sectors of the community.
- Hang Seng Bank celebrated its 70th anniversary on 3 March 2003. The anniversary tagline, '70 Years of Excellence', highlighted the bank's commitment to providing high quality services that exceed customer expectations.

Personal Financial Services

- HSBC's position as one of the leading providers of wealth management services was sustained amid keen competition. Income from wealth management, including commissions on sales of unit trust products, funds under management, and securities transactions, grew by 38 per cent to US\$408 million. A wide range of new retail unit trusts, certificates of deposit, bonds and structured deposits were launched to provide products to meet customers' needs in the low-interest rate environment.
- HSBC increased sales of new regular premium individual life insurance by 59 per cent, growing its market share from 13.9 per cent to 18.6 per cent.
- On the back of this success, HSBC continued to add to its dedicated sales force, and the number of sales staff gaining professional qualifications in investment and insurance business also rose.
- HSBC maintained its position as the number one credit card issuer in Hong Kong and, through strong and targeted customer marketing, increased card usage despite the subdued economy.

- HSBC continued to focus on operational efficiency, with the Group Service Centres in mainland China expanding to provide about half the operational support for credit cards in Hong Kong.
- HSBC continues to have the largest market share in online banking in Hong Kong, with more than 665,000 registered users at December 2003, up by 41 per cent on 2002. A 62 per cent increase in monthly website visits was achieved in 2003, following the introduction of tailored web pages for customer segments, alert services and market information.
- HSBC was judged the best consumer internet bank in Hong Kong for the second year in a row by *Global Finance* and also won awards for the best consumer online securities trading service; the best consumer online credit service in Asia, and the best consumer web site design in Asia.
- Hang Seng Bank continued to enhance its internet banking services, launching the e-Fund Supermarket in July to provide customers with comprehensive one-stop online investment fund services. By the year-end the number of Hang Seng customers registered for Personal e-Banking services in Hong Kong had risen by 34 per cent to 337,000, and internet transactions represented 20 per cent of total transactions.
- HSBC increased the number of *Premier* centres in Hong Kong to 36, which support an enlarged *Premier* customer base of 224,000.
- HSBC was named the Best Bank in Hong Kong in 2003 by *Euromoney*, *The Asset*, and *The Banker*, and Best Local Bank in Hong Kong by *Finance Asia*. HSBC was also named as the Best Managed Company in Hong Kong for the second consecutive year by *Asiamoney*, and won the Hong Kong Retail Management Association's 2003 Award for Services: Customer Service Grand Award.
- Hang Seng Bank was named the Best Domestic Commercial Bank in Hong Kong by *The Asset* and *Asiamoney*.
- Hang Seng Bank strengthened its suite of insurance and investment products by widening its product range. The number of funds under the Hang Seng Investment series launched by Hang Seng Bank rose from 60 to 90 in 2003, and funds under management increased by 30 per cent to HK\$30 billion (US\$3.9 billion) at the year end.
- Hang Seng Investment Management Limited introduced the first exchange traded fund tracking the Hang Seng China Enterprises Index. This fund was listed on the Hong Kong stock exchange in December 2003.
- Hang Seng Bank launched Leisure Class in June 2003, a new service which offers retirees and those who are planning to retire, comprehensive investment services and benefits and a range of leisure activities including Chinese painting and calligraphy classes and seminars on Chinese medicine.
- Following the relaxation of restrictions on individual travel to Hong Kong by mainland China visitors, the People's Bank of China and the Hong Kong Monetary Authority announced consent at the end of 2003 for Hong Kong banks to commence specified renminbi services, including exchange, deposit taking, remittances and renminbi credit cards. HSBC and Hang Seng Bank launched renminbi services in February 2004.

Commercial Banking

- HSBC maintained its position as the leading trade services bank in 2003, growing market share and being named the Best Trade Finance Bank in Asia by *Global Finance*. With 80 per cent of HSBC's substantial trade income coming from Commercial Banking customers, instant@dvce, an internet based service which supports electronic documentary credits advising, was launched.
- Launched in August 2001, HSBC's Business Internet Banking service continued to be well received in the market. HSBC was recognised by *Global Finance* as the Best Corporate/Institutional Internet Bank in Hong Kong in 2003. Surveys indicated that HSBC had the largest online business banking market share in Hong Kong with over 31,000 companies registered as users. In addition, Hang Seng Bank had some 13,000 business e-banking customers by the year-end compared with 5,000 at the end of 2002.
- Hang Seng Bank launched the Integrated Business Solutions Account in September 2003,

Financial Review (continued)

Net interest income

	Year ended 31 December									
	2003					2002		2001		
	Total US\$m	%	Household ¹ US\$m	%	Rest of HSBC US\$m	%	US\$m	%	US\$m	%
By geographical region										
Europe.....	7,540	29.5	438	5.3	7,102	41.0	6,343	41.0	5,563	37.8
Hong Kong.....	3,901	15.2	—	—	3,901	22.6	4,133	26.7	4,165	28.3
Rest of Asia-										
Pacific.....	1,740	6.8	—	—	1,740	10.1	1,607	10.4	1,482	10.1
North America..	11,777	46.0	7,867	94.7	3,910	22.6	2,732	17.7	2,450	16.6
South America..	640	2.5	—	—	640	3.7	645	4.2	1,065	7.2
Net interest income	25,598	100.0	8,305	100.0	17,293	100.0	15,460	100.0	14,725	100.0

	Year ended 31 December		
	2003 US\$m	2002 US\$m	2001 US\$m
Net interest income	25,598	15,460	14,725
Average interest-earning assets	778,415	608,749	579,665
Gross interest yield (per cent) ²	5.13	4.70	6.08
Net interest spread (per cent) ³	3.06	2.27	2.09
Net interest margin (per cent) ⁴	3.29	2.54	2.54

1 Since the date of acquisition.

2 Gross interest yield is the average interest rate earned on average interest-earning assets (AIEA).

3 Net interest spread is the difference between the average interest rate earned on average interest-earning assets and the average interest rate paid on average interest-bearing funds.

4 Net interest margin is net interest income expressed as a percentage of average interest-earning assets.

Year ended 31 December 2003 compared with year ended 31 December 2002

Net interest income in 2003 was US\$10,138 million, or 66 per cent higher than 2002, at US\$25,598 million. Of this increase, Household contributed US\$8,305 million, and HSBC Mexico US\$874 million. Excluding these acquisitions, and at constant exchange rates, net interest income was only marginally higher than in 2002, as the impact of growth in interest-earning assets was offset by continuing margin compression from the effect of low interest rates worldwide. This impact is expected to continue in 2004 unless interest rates rise ahead of market expectations.

In Europe, net interest income was US\$1,197 million, or 19 per cent, higher than in 2002. HFC Bank contributed US\$438 million of this increase. Excluding this acquisition and at constant exchange rates, net interest income was slightly higher than in 2002, reflecting strong growth in average interest-earning assets. This was partly offset by the cost of paying interest on small and medium-sized business accounts in the UK and the impact of liquidity being redeployed at lower yields as assets matured. In North America, net interest income

increased by US\$9,045 million. On an underlying basis, the growth was US\$304 million, or 11 per cent, primarily reflecting the benefits of strong growth in mortgage lending and savings products, and good balance sheet management, which improved the mix of lending by exiting less profitable business. Benefit was also gained from the elimination of funding costs following the closure of certain arbitrage trading activities in the US. In Hong Kong, net interest income declined by 6 per cent, largely due to spread compression on the value of deposits and continued pressure on margins in the mortgage business. Continued pressure on margins depressed mortgage yields in an environment of very low credit demand. This was partly offset by a 7 per cent growth in average interest-earning assets, increased customer deposits and the redeployment of interbank placements in holdings of debt securities. Credit card lending also grew by 6 per cent, improving the mix of assets.

In the rest of Asia-Pacific, net interest income increased by 8 per cent. In constant currency, this increase was 5 per cent, driven by growth in mortgages and credit card lending, and the beneficial effect of the acquisition of the retail deposit and loan

business of AMP Bank Limited in the first half of 2003.

In South America, net interest income was broadly in line with last year. In constant currency, net interest income grew by 10 per cent. In Brazil, net interest income was marginally higher than in 2002, benefiting from the acquisition of the Brazilian businesses and assets of Lloyds TSB Group plc in December 2003. Excluding this, the favourable effect of higher levels of customer lending and deposits were fully offset by reduced spreads as interest rates fell during the year. Argentina recorded net interest income of US\$14 million in 2003 compared with a net interest expense in 2002. As the domestic economy began to recover and the trade surplus grew, interest rates fell. The effect of the continuing reduction in average interest-earning assets was more than offset by the lower cost of funding the non-performing loan portfolio.

Overall, average interest-earning assets increased by US\$169.7 billion, or 28 per cent, compared with 2002. Of the increase, Household contributed US\$92.0 billion and HSBC Mexico US\$17.8 billion. At constant exchange rates, underlying average interest-earning assets increased by 4 per cent. This growth was driven principally by higher mortgage balances and personal lending in the UK, France, the US, Canada, Malaysia, Australia and Singapore, and an increase in holdings of long-term securities in the US and debt securities in Hong Kong.

HSBC's net interest margin was 3.29 per cent in 2003, compared with 2.54 per cent in 2002. The acquisitions of Household and HSBC Mexico increased net interest margin by 77 and 6 basis points respectively. On an underlying basis, HSBC's net interest margin fell by 8 basis points to 2.46 per cent.

In Europe, the fall in net interest margin was primarily due to a decline in the benefit of net free funds, mainly as a result of paying interest on current account balances belonging to small and medium sized enterprises in the UK. In Hong Kong, HSBC's net interest margin also declined because of lower spreads on deposits and lower yields on redeployed interbank placements. In Hang Seng Bank, net interest margin narrowed due to lower mortgage yields, narrower spreads on deposits and debt securities, and a lower contribution from net free funds, partly offset by switching liquidity from interbank placements to debt securities. In the rest of

Asia-Pacific, net interest margin fell in several countries, mainly from narrower spreads on deposits, lower yields on mortgages, the maturing of higher yielding assets, and a reduced contribution from net free funds. In the US, growth in mortgage balances and a shift in the treasury portfolio to higher yielding fixed rate investments led to an improvement in net interest margin.

Year ended 31 December 2002 compared with year ended 31 December 2001

Net interest income in 2002 was US\$735 million, or 5 per cent, higher than 2001, at US\$15,460 million. At constant exchange rates, net interest income was 6 per cent higher than 2001 reflecting growth in HSBC's operations in Europe, North America and the rest of Asia Pacific, as well as the acquisition of HSBC Mexico at the end of November 2002.

In Europe, net interest income was US\$780 million, or 14 per cent, higher than in 2001, mainly reflecting the growth in average interest-earning assets and the benefits of lower funding costs. In constant currency, growth was 10 per cent. In North America, net interest income increased by US\$282 million, or 12 per cent, due to a combination of the increased level of average interest-earning assets, primarily residential mortgages, and wider margins on treasury activities as a steeper yield curve led to reduced funding costs. In addition, HSBC Mexico contributed US\$85 million of net interest income to the North American region. In Hong Kong, notwithstanding modest loan growth and a reduced contribution from net free funds, net interest income was largely maintained as a strong performance in Global Markets, together with growth in credit card lending and in low cost deposits, offset continuing margin compression in the mortgage business.

In the rest of Asia-Pacific net interest income growth of 8 per cent was driven by higher credit card and personal lending together with the full year impact of the acquisition of NRMA Building Society ('NRMA') in Australia in 2001.

In South America the unsettled economic environment caused net interest income to fall by US\$420 million to US\$645 million. In Brazil, underlying net interest income was in line with 2001 as the benefit from higher levels of customer lending was offset by the impact of HSBC's decision to reduce the level of local debt securities and to

Financial Review (continued)

position the balance sheet more conservatively. In Argentina, the combination of narrower spreads and the high cost of local funding of the non-performing loan portfolio resulted in net interest expense in 2002.

Average interest-earning assets at US\$609 billion increased by US\$29 billion, or 5 per cent. Adjusting for the impact of foreign exchange translation and acquisitions, underlying growth was 3 per cent, driven principally by the placement of customer deposits in the UK, Taiwan, India, Korea, mainland China and the Middle East, together with personal lending growth in the UK, France, US, Canada, Singapore, Malaysia, Korea, Taiwan and India. The increase in average interest-earning assets from acquisitions was US\$4 billion.

HSBC was able to maintain its net interest margin at 2.54 per cent, unchanged from 2001, as an 18 basis point widening in interest spread was offset by a similar reduction in the contribution from net free funds. Interest spreads benefited from a change in asset mix, with a higher proportion of personal lending, and from the increasing investment of surplus liquidity in higher yielding investment grade corporate debt securities, instead of interbank placements. In addition, margins benefited from the fall in short-term interest rates as relative returns earned on liquidity deployed in longer dated assets by Global Markets increased as the yield curve steepened. A reduced benefit from a higher level of net free funds mitigated this effect on the net interest margin.

In the UK, net interest margin fell as an improved contribution from Global Markets activities and the benefit of higher levels of personal customer lending were more than offset by reduced earnings from net free funds. In Hong Kong, The Hongkong and Shanghai Banking Corporation maintained its margin through improved Global Markets performance, higher net recoveries of suspended interest and an increased proportion of higher yielding credit card advances. These factors offset the impact of reduced spreads on deposits, a lower contribution from net free funds and narrower spreads in the competitive mortgage market. Hang Seng Bank suffered a fall in net interest margin, primarily from a combination of lower earnings on net free funds as interest rates fell and narrower spreads on mortgages. For Hang Seng Bank these drivers were much more significant than for The Hongkong and Shanghai Banking Corporation. In the US, the net interest margin improved as the result of a strong performance in Global Markets activities, as a steeper yield curve reduced funding costs, and growth in average mortgage balances.

HSBC moved increasingly to differentiated product pricing in 2002. This competitive approach reflected the value to HSBC of its loyalest customers, but resulted in narrower spreads on a number of products, particularly mortgages and savings. The benefit of this strategy was seen in the mix and volume of HSBC's core current account and savings products, particularly in the UK, Hong Kong and the US.

Other operating income

	Year ended 31 December									
	2003						2002		2001	
	Total US\$m	%	Household ¹ US\$m	%	Rest of HSBC US\$m	%	US\$m	%	US\$m	%
By geographical region										
Europe.....	7,555	47.4	198	10.5	7,357	52.6	6,272	54.8	6,056	53.0
Hong Kong.....	2,331 ²	14.7	—	—	2,331	16.6	1,917	16.7	1,852	16.2
Rest of Asia-Pacific.....	1,350	8.5	—	—	1,350	9.6	1,174	10.2	1,137	10.0
North America..	3,982	25.1	1,680	89.5	2,302	16.4	1,502	13.1	1,495	13.1
South America..	678	4.3	—	—	678	4.8	596	5.2	880	7.7
	15,896	100.0	1,878	100.0	14,018	100.0	11,461	100.0	11,420	100.0
Intra-HSBC elimination....	(422)		—		(422)		(326)		(257)	
Other operating income	15,474		1,878		13,596		11,135		11,163	

	Year ended 31 December				
	2003			2002	2001
	Total US\$m	Household ¹ US\$m	Rest of HSBC US\$m	US\$m	US\$m
By income category					
Dividend income	222	12	210	278	186
Fees and commissions (net)	10,394	1,216	9,178	7,824	7,470
Dealing profits					
– foreign exchange	1,239	—	1,239	1,167	1,120
– interest rate derivatives	330	—	330	47	159
– debt securities	251	—	251	75	311
– equities and other trading	358	—	358	24	95
	2,178	—	2,178	1,313	1,685
Operating leased assets rental income	553	4	549	490	465
General insurance underwriting (net)	473	62	411	313	373
Increase in value of long-term insurance business	206 ²	—	206	182	251
Other	1,448	584	864	735	733
	2,680	650	2,030	1,720	1,822
Total other operating income	15,474	1,878	13,596	11,135	11,163

1 Since the date of acquisition.

2 This figure has been reduced by the reversal of a US\$42 million profit made on own shares, as a result of compliance with UITF Abstracts 37 and 38, details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

Financial Review (continued)

Analysis of fees and commissions receivable and payable

	Year ended 31 December			2002 US\$m	2001 US\$m
	2003 Total US\$m	Household ¹ US\$m	Rest of HSBC US\$m		
Account services	2,317	138	2,179	1,715	1,620
Credit facilities	966	—	966	752	628
Remittances	288	—	288	268	246
Cards	2,976	1,495	1,481	1,242	1,116
Imports/exports	609	—	609	556	524
Underwriting	175	—	175	173	135
Insurance	961	35	926	775	668
Mortgage servicing rights	75	—	75	77	78
Trust income	145	—	145	125	114
Broking income	873	—	873	773	928
Global custody	338	—	338	296	308
Maintenance income on operating leases	171	—	171	160	165
Funds under management	1,096	—	1,096	1,026	965
Unit trusts	358	—	358	284	481
Corporate finance	189	—	189	122	115
Other	1,023	6	1,017	901	665
Total fees and commissions receivable	12,560	1,674	10,886	9,245	8,756
Less: fees payable	(2,166)	(458)	(1,708)	(1,421)	(1,286)
Net fees and commissions	10,394	1,216	9,178	7,824	7,470

¹ Since the date of acquisition.

Year ended 31 December 2003 compared with year ended 31 December 2002

Other operating income of US\$15,474 million, was US\$4,339 million, or 39 per cent, higher than in 2002. Of this increase, Household contributed US\$1,878 million and HSBC Mexico contributed US\$599 million. On an underlying basis, and at constant exchange rates, growth in other operating income was 9 per cent, principally as a result of higher dealing profits throughout HSBC's operations.

The acquisitions of Household and HSBC Mexico reduced the proportion of fee revenues exposed to stock market fluctuations by bringing into the Group significant levels of account service fees (HSBC Mexico) and credit card fee income (Household). Fees from credit cards now constitute close to 24 per cent of total fees receivable compared with 13 per cent in 2002.

Fees and commission income, excluding Household and HSBC Mexico and at constant exchange rates, increased by 4 per cent compared with 2002. In Europe, fee income increased by US\$664 million, or 15 per cent, of which HFC Bank contributed US\$49 million. Excluding this acquisition and at constant exchange rates, fee income increased by 2 per cent, mainly from growth in sales of creditor protection insurance, cards

transactions and loan fees. Within the UK, personal loan protection premiums grew by 19 per cent, reflecting growth in mortgages and personal loans. However, this was partly offset by a decline in sales of investment and pension products, mainly reflecting uncertainty in the equity markets.

In North America, excluding US\$1,167 million and US\$453 million relating to Household and HSBC Mexico respectively, fee income was marginally higher than in 2002. Growth in income from securities advisory services, deposit-related service charges and card fees was partly offset by lower earnings from mortgage servicing.

In Hong Kong, fee income increased by US\$119 million, primarily due to higher revenues from wealth management services. There was strong growth in fees from sales of unit trusts and capital-guaranteed funds, which increased by US\$1.6 billion in 2003. HSBC expanded its range of structured deposit products, further benefiting fee income. Revenues from securities and stockbroking also increased in line with a buoyant stock market in the second half of the year and increased market share. In addition, the insurance business generated strong results reflecting growth in new individual life business written.

HSBC's operations in the rest of Asia-Pacific increased fee income by US\$81 million with strong growth in wealth management income, reflecting higher unit trust sales and funds under management. Fee income from credit cards rose in a number of countries.

In South America, fee income increased by 10 per cent at constant exchange rates, mainly in Brazil. The increase reflected good growth in credit-related revenue, account service fees and cards. In Argentina a decline in fee income was recorded.

Dealing profits of US\$2,178 million were US\$865 million, or 66 per cent, higher than in 2002 and reflected investment in and refocusing of HSBC's markets businesses, primarily in the US and in Europe. In Asia, a wider range of structured solutions was offered to customers which boosted revenues. Acquisitions were not significant contributors to growth in this area with HSBC Mexico contributing US\$103 million. Within dealing profits, there was strong growth in fixed income earnings, predominantly in Europe and Hong Kong, as a result of favourable credit spreads and strong investor demand for yield enhancement products. Foreign exchange revenues increased in both Europe and North America, with volatility in the major currencies driving sales of hedging products and sales activity generally. In Hong Kong, a greater focus on tailored solutions generated a significant increase in corporate sales during the year.

Other operating income further benefited from expansion of the insurance businesses in Argentina and Hong Kong and growth in the rail leasing business in the UK.

Year ended 31 December 2002 compared with year ended 31 December 2001

Other operating income of US\$11,135 million was in line with that of 2001, both in nominal terms and in constant currency. In both Europe and South America the nominal movements in other operating income were primarily due to currency translation. With the exception of equity market-related activities, namely broking income and custody fees, growth was achieved in virtually all elements of other operating income.

Net fees and commissions, at US\$7,824 million, were US\$354 million, or 5 per cent, higher than in 2001 and represented 29 per cent of total operating income in both 2002 and 2001. At constant exchange

rates, net fees and commissions were 4 per cent higher than in 2001.

In Europe, fee income increased by US\$318 million, or 8 per cent (3 per cent in constant currency), as growth in wealth management income, particularly in general and life insurance, private client, pensions and investment advisory business more than offset the lower levels of equity market-related fees. In the UK, growth of 17 per cent was achieved in HSBC branded life, pensions and investment products sold through the tied salesforce. Sales of life protection products grew by 4 per cent and creditor protection insurance by 29 per cent.

In North America, fee income was US\$24 million higher than in 2001, excluding the US\$47 million increase arising from the acquisition of HSBC Mexico. Growth in fee income from the sale of annuities and mutual funds, and across a range of banking services, more than offset a lower level of broking income.

In Hong Kong, where the demand for credit products was muted, emphasis was placed on generating fee income. A combination of initiatives meant fee income was US\$92 million higher than in 2001. This was primarily due to strong growth in fees from the sale of unit trusts, including the sale of US\$2.8 billion of HSBC's capital guaranteed funds, and fees from credit cards, insurance and underwriting business. In addition, higher levels of fee income were earned from structured finance transactions.

HSBC's operations in the rest of Asia-Pacific grew fee income by US\$43 million, with strong contributions from credit cards in Taiwan, Malaysia, Indonesia, the Middle East, Thailand and India.

In South America, fee income fell nominally by US\$170 million, though by only US\$27 million at constant exchange rates. Fee earning opportunities contracted in the subdued economic environment and, in addition, the Brazilian Government moved to prohibit the charging of fees against certain accounts.

Dealing profits at US\$1,313 million were US\$372 million, or 22 per cent, lower than in 2001. Within this category foreign exchange earnings grew 4 per cent to US\$1,167 million and continued to demonstrate resilience across all market conditions. The deterioration was primarily in the area of interest rate trading, with earnings from debt securities

Financial Review (continued)

2003-2004

US\$236 million lower as credit spreads on corporate bonds widened sharply in response to an erosion of market confidence caused by low earnings growth and news of corporate scandals in the United States. Dealing profits were also affected by weaknesses in the equity markets.

Fees in debt capital markets grew strongly by 30 per cent, or US\$40 million, as HSBC improved its position in European markets.

Operating expenses

	Year ended 31 December									
	2003						2002		2001	
	Total US\$m	%	Household ¹ US\$m	%	Rest of HSBC US\$m	%	US\$m	%	US\$m	%
By geographical region										
Europe	9,529	44.3	299	8.8	9,230	51.1	7,878	51.6	7,288	49.0
Hong Kong	2,212	10.3	—	—	2,212	12.2	2,139	14.0	2,140	14.4
Rest of Asia—										
Pacific	1,741	8.1	—	—	1,741	9.6	1,528	10.0	1,397	9.4
North America..	6,947	32.3	3,107	91.2	3,840	21.2	2,675	17.5	2,540	17.1
South America..	1,075	5.0	—	—	1,075	5.9	1,060	6.9	1,497	10.1
	<u>21,504</u>	<u>100.0</u>	<u>3,406</u>	<u>100.0</u>	<u>18,098</u>	<u>100.0</u>	<u>15,280</u>	<u>100.0</u>	<u>14,862</u>	<u>100.0</u>
Intra-HSBC elimination ...	(422)		—		(422)		(326)		(257)	
	<u>21,082</u>		<u>3,406</u>		<u>17,676</u>		<u>14,954</u>		<u>14,605</u>	
Goodwill amortisation										
Europe	758	52.3	23	6.0	735	68.7	651	76.2	632	79.1
Hong Kong	3	0.2	—	—	3	0.3	—	—	—	—
Rest of Asia—										
Pacific	35	2.4	—	—	35	3.3	33	3.9	8	1.0
North America..	643	44.3	358	94.0	285	26.7	146	17.1	145	18.1
South America..	11	0.8	—	—	11	1.0	24	2.8	14	1.8
	<u>1,450</u>	<u>100.0</u>	<u>381</u>	<u>100.0</u>	<u>1,069</u>	<u>100.0</u>	<u>854</u>	<u>100.0</u>	<u>799</u>	<u>100.0</u>
Total operating expenses	<u>22,532</u>		<u>3,787</u>		<u>18,745</u>		<u>15,808</u>		<u>15,404</u>	

	Year ended 31 December				
	2003			2002	2001
	Total US\$m	Household ¹ US\$m	Rest of HSBC US\$m	US\$m	US\$m
By expense category					
Staff costs	12,111	1,794	10,317	8,609	8,553
Premises and equipment (excluding depreciation)	2,331	299	2,032	1,824	1,639
Other administrative expenses	5,243	1,203	4,040	3,331	3,279
Administrative expenses	19,685	3,296	16,389	13,764	13,471
Depreciation and amortisation					
– tangible fixed assets	1,382	99	1,283	1,189	1,133
– intangible assets	15	11	4	1	1
– goodwill	1,450	381	1,069	854	799
Total operating expenses	<u>22,532</u>	<u>3,787</u>	<u>18,745</u>	<u>15,808</u>	<u>15,404</u>
	%	%	%	%	%
Cost:income ratio (excluding goodwill amortisation)	51.3	33.4	57.2	56.2	56.4

1 Since the date of acquisition.

	As at 31 December			
	2003			2001
	Total	Household	Rest of HSBC	
Staff numbers (full-time equivalent)				
Europe	73,943	4,075	69,868	72,260
Hong Kong	23,636	—	23,636	23,786
Rest of Asia-Pacific	31,827	—	31,827	28,630
North America	65,021	28,872	36,149	34,207
South America	28,292	—	28,292	25,522
Total staff numbers	<u>222,719</u>	<u>32,947</u>	<u>189,772</u>	<u>184,405</u>

Financial Review (continued)

Year ended 31 December 2003 compared with year ended 31 December 2002

Growth in operating expenses of US\$6,724 million, or 43 per cent, principally reflected the acquisitions of Household, US\$3,787 million, and HSBC Mexico, US\$964 million. Excluding the impact of these acquisitions and expressed in terms of constant currency, underlying operating expenses, excluding goodwill amortisation, were 5 per cent higher than in 2002. Virtually all of this growth was in staff costs, reflecting restructuring costs, higher social taxes and pension costs. In addition, Corporate, Investment Banking and Markets incurred higher costs reflecting expansion of the business and increased profitability. Notwithstanding this growth, the cost:income ratio of Corporate, Investment Banking and Markets improved by 3 per cent to 48.9 per cent. HSBC's cost:income ratio excluding goodwill amortisation was 51.3 per cent for 2003, compared with 56.2 in 2002. Excluding Household, the cost:income ratio was 57.2 per cent.

In 2003, HSBC's Group Service Centre in Malaysia became operational. Overall, the Group's Global Resource centres now employ in excess of 8,000 employees.

In Europe, costs excluding goodwill amortisation increased by US\$1,651 million compared with 2002, of which Household contributed US\$299 million. At constant exchange rates and excluding Household and goodwill amortisation, expenses were 5 per cent higher than in 2002. This increase in expenses was primarily due to higher pension provision and employment costs, particularly in the UK, where social taxes were raised. Redundancy and property provisioning costs also increased, as HSBC restructured and relocated positions to the Group Service Centres in order to reduce its long-term staff costs. In addition, higher bonus accruals reflected stronger Global Markets revenues.

Operating expenses in Hong Kong, excluding goodwill amortisation, were marginally higher than in 2002. Increased staff costs were mainly attributable to higher performance-related bonuses, reflecting strong Global Markets performance, and provisions for restructuring costs. Marketing expenses also rose in Personal Financial Services as Hong Kong's economy rebounded after SARS abated. These increases were partly offset by reductions in staff numbers in Hong Kong as HSBC

continued its policy of migrating back office processing functions to the Group Service Centres.

In the rest of Asia-Pacific, costs in 2003, excluding goodwill amortisation, increased by US\$213 million, or 14 per cent, compared with 2002. At constant exchange rates, the increase was 9 per cent, primarily from recruitment to support business expansion, branch opening costs, acquisitions and provisions for restructuring. In addition, the continued migration of processing activities from other regions to the Group Service Centres in India, Malaysia and mainland China added to costs.

In North America, operating expenses, excluding goodwill amortisation, increased by US\$284 million, or 11 per cent, in 2003 excluding Household and HSBC Mexico. This increase was largely driven by higher staff costs, namely pension and healthcare provisions, performance-related incentives, and expenses associated with long-term restructuring programmes. In the US during 2003, severance costs of US\$47 million were recorded for expense reduction initiatives, global resourcing moves and Household integration efforts, a US\$28 million increase over the prior year. In addition, costs rose from the first full year inclusion of HSBC's high net worth personal tax advisory business. These increases were partly offset by the benefits obtained from discontinuing certain of HSBC's government and agency securities arbitrage operations in the US, and from business disposals.

In South America, operating expenses, excluding goodwill amortisation, were broadly in line with 2002. At constant exchange rates and excluding goodwill amortisation, costs were 6 per cent higher than in 2002. The rise in Brazil was due to higher staff costs, driven by increases in labour claims, together with higher marketing costs and increased transaction taxes on higher operating income as the personal lending portfolio was expanded. In addition, the Group's newly acquired businesses in Brazil added to cost growth. Costs in Argentina were down on 2002, mainly because of lower severance costs.

Year ended 31 December 2002 compared with year ended 31 December 2001

Operating expenses in 2002 were US\$404 million, or 3 per cent, higher than in 2001. The increase reflected organic growth, acquisitions made during 2002, and the full year effect of acquisitions and the expansion of business activities in 2001, particularly

in North America and the rest of Asia Pacific. In constant currency, excluding acquisitions made in 2002 and goodwill amortisation, cost growth was 2 per cent. Goodwill amortisation increased by US\$55 million, of which US\$10 million was goodwill amortised on GFBital for the one month of its ownership, and US\$20 million was a non-recurring charge to write-off the balance of purchased goodwill on the Group's insurance activities in Argentina.

In Europe, costs excluding goodwill amortisation increased by US\$590 million in 2002 compared with 2001. At constant exchange rates, costs in 2002, excluding goodwill amortisation, were US\$265 million or 3 per cent higher than in 2001. US\$165 million of this increase was attributable to acquisitions and changes in Group structure. These comprised the full consolidation of the Merrill Lynch HSBC business from July 2002 (US\$45 million), and the acquisition of Demirbank and the Benkar card business in Turkey (US\$120 million). The move to the Group's new headquarters in Canary Wharf, together with consequent increases in vacant space provisioning, added US\$76 million. Costs in the UK based investment banking operations were lower as headcount was adjusted to reflect market conditions.

In Hong Kong, costs in 2002, excluding goodwill amortisation, were in line with 2001. A fall in staff costs, following the transfer of back office processing functions to Group Service Centres in India and mainland China, and the non-recurrence of

a pension top-up in Hang Seng Bank, offset increases in costs associated with business expansion.

In the rest of Asia-Pacific, costs excluding goodwill amortisation increased by US\$131 million, or 9 per cent, in 2002 compared with 2001. This growth in costs primarily reflected a higher staff complement in Group Service Centres in India and mainland China, and the expansion of business in several countries in the region, in particular mainland China, Taiwan, the Middle East and Australia, the latter through the acquisition of NRMA.

Operating expenses in North America, excluding goodwill amortisation, increased by US\$135 million, or 5 per cent, in 2002. This increase largely arose from the acquisition of GFBital and the costs associated with the establishment of the Wealth and Tax Advisory Services ('WTAS') business in the US. A reduction in the costs associated with ongoing development of *hsbc.com* offset additional costs from the closure of the institutional equity business in Canada and the restructuring of the merchant banking business in the US.

In South America, operating expenses, excluding goodwill amortisation, fell by US\$437 million, or 29 per cent, during 2002. At constant exchange rates, operating expenses excluding goodwill amortisation were 4 per cent higher than in 2001. The increase related to industry-wide salary adjustments agreed with unions in Brazil and costs of severance as headcount reductions were made in the recessionary environment.

Bad and doubtful debts

	Year ended 31 December									
	2003								2002	
	Total US\$m	%	Household ¹ US\$m	%	Rest of HSBC US\$m	%			US\$m	%
By geographical region										
Europe.....	874	14.3	180	3.9	694	45.7			569	43.1
Hong Kong.....	400	6.6	—	—	400	26.4			246	18.6
Rest of Asia-Pacific.....	85	1.4	—	—	85	5.6			89	6.7
North America..	4,676	76.7	4,395	96.1	281	18.5			300	22.7
South America..										
— normal	58	1.0	—	—	58	3.8			313	23.7
— additional ²	—	—	—	—	—	—			(196)	(14.8)
									600	29.5
Total charge for bad and doubtful debts	6,093	100.0	4,575	100.0	1,518	100.0			1,321	100.0
									2,037	100.0

1 Since the date of acquisition.

2 Additional general (recoveries)/provision against Argentine exposures.

Financial Review (continued)

in US\$m, unless stated

Bad and doubtful debts (continued)

	Year ended 31 December			2002 US\$m	2001 US\$m
	2003 Total US\$m	Household ¹ US\$m	Rest of HSBC US\$m		
Specific provisions					
New provisions	7,777	4,773	3,004	2,678	2,566
Release of provisions no longer required	(953)	(4)	(949)	(826)	(817)
Recoveries of amounts previously written off	(610)	(307)	(303)	(180)	(285)
	6,214	4,462	1,752	1,672	1,464
General provisions					
Argentine additional provision	—	—	—	(196)	600
Other	(121)	113	(234)	(155)	(27)
	(121)	113	(234)	(351)	573
Total	6,093	4,575	1,518	1,321	2,037
Customer non-performing loans	15,050	4,706	10,344	10,523	9,649
Customer bad and doubtful debt provisions ...	13,691	5,201	8,490	9,117	8,161

¹ Since the date of acquisition.

Year ended 31 December 2003 compared with year ended 31 December 2002

The acquisition of Household significantly affected the geographical and customer segment distribution of the Group's lending activities and, more markedly, the distribution of its credit costs. At 31 December 2003, 76 per cent of customer lending was located, fairly equally, in Europe and North America, compared with 69 per cent in 2002, with Europe two-thirds of that total. At 31 December 2003, personal lending accounted for 56 per cent of the customer loan portfolio compared with 42 per cent at 31 December 2002.

Excluding the effect of foreign exchange translation and the acquisition of Household, over 90 per cent of loan growth in 2003, excluding the financial sector, was generated in personal lending, predominantly mortgages, credit cards and other personal products.

Over 90 per cent of the charge for bad and doubtful debts in 2003 related to lending to the personal sector, including consumer finance, compared with 65 per cent in 2002. Similarly, over 90 per cent of the charge related to lending in the US and Europe, compared with 66 per cent in 2002.

The charge for specific bad and doubtful debts adjusts the specific balance sheet provisions to the level that management deems adequate to absorb actual and inherent losses in the Group's loan portfolio from homogenous portfolios of assets and individually identified customer loans. Following the

acquisition of Household, the majority of specific provisions are now determined on a portfolio basis. In addition, the acquisition of Household has resulted in a significant increase in the extent to which HSBC employs statistical calculations using roll rate methodology to determine specific provisions for bad and doubtful debts. Other than this, there have been no significant changes to HSBC's procedures in determining the various components of the charge for specific bad and doubtful debts. The charge for specific provisions in 2003 was US\$6,214 million compared with US\$1,672 million in 2002, an increase of US\$4,542 million. New specific provisions, which increased by US\$5,099 million, principally reflected the acquisitions of Household (US\$4,773 million) and HSBC Mexico (US\$47 million). Excluding the effect of the acquisitions, new specific provisions rose by US\$249 million, or 9 per cent, compared with 2002.

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be individually identified as such until some time in the future. In determining the level of general provisions management takes into account historical loss experience, the estimated period between a loss occurring and that loss being identified and use their judgement as to whether current economic and credit conditions are likely to increase or reduce the actual level of inherent losses. There was a net general provision release of US\$121 million in 2003, US\$230 million lower than the net release of

US\$351 million in 2002. In Household and HSBC Mexico, general provisions were augmented by US\$191 million due to growth in personal lending. Excluding this, the net release of general provisions of US\$312 million was in line with that of 2002. This reflected improved underlying economic conditions, and progress made with refinancing and restructuring problem credits.

The aggregate customer bad and doubtful debt provisions at 31 December 2003 of US\$13.7 billion represented 2.66 per cent of gross customer advances (net of suspended interest, reverse repos and settlement accounts) compared with 2.68 per cent at 31 December 2002. As in 2003, HSBC cross-border exposures did not necessitate significant provisions.

Non-performing loans (net of suspended interest) of US\$15 billion at 31 December 2003 included US\$5 billion relating to Household's loan book. Excluding Household, and at constant exchange rates, there was a decrease in the level of non-performing loans (net of suspended interest) in 2003 compared with 2002 mainly as a result of the write-off of loans from the legacy portfolio acquired on the acquisition of HSBC Mexico.

Year ended 31 December 2002 compared with year ended 31 December 2001

HSBC's customer loan portfolio continued to be well-spread both geographically and across personal and industrial sectors during 2002. The loan portfolio at constant exchange rates and excluding loans to the financial sector, grew by US\$31.5 billion, or 11 per cent, during 2002 of which US\$9.4 billion, or 3 per cent, arose from the acquisition of HSBC Mexico. The personal loan sector of the Group's loan portfolio increased to 42 per cent of the aggregate at the end of 2002 compared with 40 per cent at the end of 2001. At constant exchange rates, there was growth of US\$19.5 billion, mainly in Europe, North America and Asia. Of this increase, US\$14.2 billion arose from residential mortgage lending.

Changes in the concentration risk and asset quality of HSBC's loan portfolio arose from the incorporation of the domestic loan book of HSBC Mexico. 13 per cent of HSBC Mexico's loan book of

US\$9.7 billion was non-performing, including significant proportions of residential mortgage loans and unsecured personal loans. These assets became impaired during the Mexican economic crisis in the late 1990s. In addition, approximately 40 per cent of HSBC Mexico's loan exposure was peso-denominated Mexican Government risk. HSBC Mexico also had impaired assets in the agricultural and other government-supported sectors. These loan assets were critically reviewed and provisions restated where necessary to conform with the requirements of both UK GAAP and US GAAP during the fair value exercise undertaken as at the date of acquisition of HSBC Mexico.

Excluding HSBC Mexico, there was a decrease in the level of non-performing loans during 2002 of US\$350 million. This was due to a combination of write-offs, recoveries and upgradings in Hong Kong and a number of other Asian countries, partly offset by a rise of US\$813 million in non-performing loans in Europe. The European increase came primarily from a small number of individual corporate loans in the telecommunications, private healthcare, leisure and manufacturing sectors and was not indicative of a general trend. Importantly, credit quality on consumer lending remained stable. In South America, in local currency terms, there was a sharp increase in the level of individual Argentinian non-performing loans as the effects of the economic crisis manifested themselves. By the end of 2002, almost three-quarters of the non-government loan book was classified as non-performing. The impact of this was recognised in the general provision established at the end of 2001.

Aggregate customer bad and doubtful debt provisions at 31 December 2002 of US\$9.1 billion represented 2.52 per cent of gross customer advances compared with 2.57 per cent at 31 December 2001.

As in 2001, HSBC's cross-border exposures did not necessitate significant provisions.

There were no significant changes to the Group's procedures for determining the various components of the provision for bad and doubtful debts.

Financial Review (continued)**Gains on disposal of investments**

	Year ended 31 December		
	2003 US\$m	2002 US\$m	2001 US\$m
Gains/(losses) on disposal of:			
– debt securities	161	170	170
– equity investments	233	226	305
– other participating interests	1	69	4
– associates	1	47	257
– subsidiaries	37	16	21
– other	18	4	(3)
	451	532	754

Year ended 31 December 2003 compared with year ended 31 December 2002

During 2003, HSBC made 26 business acquisitions and completed 14 business disposals.

HSBC's profit on disposal of investments was US\$451 million, US\$81 million lower than in 2002. The profits in 2002 included gains of US\$39 million on the sale of HSBC's 50 per cent share of Lixxbail to its joint venture partner, and US\$38 million on the sale of HSBC's 6.99 per cent share in Banco Santiago S.A..

Realised gains on the sale of debt and equity investment securities during the period were broadly in line with 2002. The reductions in interest rates and improvement in equity markets drove growth of US\$59 million in the unrecognised gains on HSBC's debt and equity investment portfolios.

Year ended 31 December 2002 compared with year ended 31 December 2001

During 2002, HSBC made 23 business acquisitions and completed 20 business disposals.

HSBC's European results included US\$213 million of profits on the sales of securities from investment portfolios, principally as HSBC adjusted its exposure to changes in interest rates. HSBC also disposed of its 50 per cent stake in Lixxbail to its joint venture partner, generating a profit of US\$39 million.

In the US, gains were taken in the first half of the year on the sale of a number of mortgage-backed and other debt securities as long-term portfolios were adjusted in response to exposures to interest rates and sovereign credit.

HSBC's South American results included a gain of US\$38 million on the sale of HSBC's 6.99 per cent stake in Banco Santiago S.A.

Hong Kong

Profit/(loss) before tax excluding goodwill amortisation

	Year ended 31 December		
	2003 US\$m	2002 US\$m	2001 US\$m
Personal Financial Services	1,740	1,705	1,631
Commercial Banking	711	733	726
Corporate, Investment Banking and Markets	1,275	1,226	1,244
Private Banking	127	107	84
Other	(123)	(61)	198
Total¹	3,730	3,710	3,883
1 <i>Goodwill amortisation excluded:</i>			
– arising on subsidiaries	3	–	–
– arising on associates and joint ventures	(1)	–	–
– total	2	–	–

Profit before tax

	Year ended 31 December		
	2003 US\$m	2002 ² US\$m	2001 ³ US\$m
Hong Kong			
Net interest income	3,901	4,133	4,165
Dividend income	31	25	26
Net fees and commissions	1,383	1,264	1,172
Dealing profits	321	133	218
Other income	596	495	436
Other operating income	2,331	1,917	1,852
Total operating income	6,232	6,050	6,017
Staff costs	(1,276)	(1,249)	(1,279)
Premises and equipment	(240)	(233)	(234)
Other	(502)	(459)	(428)
Depreciation and intangible asset amortisation	(194)	(198)	(199)
	(2,212)	(2,139)	(2,140)
Goodwill amortisation	(3)	–	–
Operating expenses	(2,215)	(2,139)	(2,140)
Operating profit before provisions	4,017	3,911	3,877
Provisions for bad and doubtful debts	(400)	(246)	(197)
Provisions for contingent liabilities and commitments	(6)	(14)	6
Amounts written off fixed asset investments	31	(10)	(18)
Operating profit	3,642	3,641	3,668
Share of operating profit in associates	18	11	17
Gains on disposal of investments and tangible fixed assets	68	58	198
Profit on ordinary activities before tax	3,728	3,710	3,883
	%	%	%
Share of HSBC's pre-tax profits (excluding goodwill amortisation) ..	25.9	35.3	44.1
Share of HSBC's pre-tax profits	29.1	38.4	48.5
Cost:income ratio (excluding goodwill amortisation)	35.5	35.4	35.6
Period-end staff numbers (full-time equivalent)	23,636	23,786	24,654
	US\$m	US\$m	US\$m
Selected balance sheet data¹			
Loans and advances to customers (net)	73,988	69,948	67,359
Loans and advances to banks (net)	38,640	33,359	42,516
Debt securities, treasury bills and other eligible bills	66,158	60,083	49,625
Total assets ^{2,3}	197,487	180,433	175,652
Deposits by banks	4,777	2,379	3,271
Customer accounts	164,024	148,904	146,544

1 Third party only.

2 Excluding Hong Kong Government certificates of indebtedness.

3 Figures for 2002 and 2001 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

Financial Review (continued)

Year ended 31 December 2003 compared with year ended 31 December 2002

The Hong Kong economy faced challenging conditions during the first half of 2003. Slower growth in major export markets, rising unemployment and a weak property market dampened consumer demand, whilst the outbreak of the SARS virus had a significant adverse impact on the entertainment, leisure and tourism sectors. However, by the third quarter there was clear evidence of a bounce-back with GDP growing 6.4 per cent quarter-on-quarter, more than reversing the 3.7 per cent dip in the second quarter of 2003. The growth rate benefited significantly from the release of demand deferred during the SARS period. Growth also drew support from stronger export demand and improving sentiment after the central government unveiled a series of economic measures to help Hong Kong, including the relaxation of controls on mainland residents travelling to Hong Kong. Local consumer spending grew for the first time in two years and even more encouraging was a pick-up in investment reflecting an improved business outlook.

HSBC's operations in Hong Kong performed well in these circumstances and reported a pre-tax profit of US\$3,728 million, broadly in line with 2002. Excluding goodwill amortisation, profit before tax was US\$3,730 million and represented 26 per cent of HSBC's total profit on that basis. Goodwill amortisation was US\$2 million in 2003.

Personal Financial Services in Hong Kong reported a pre-tax profit, before goodwill amortisation, of US\$1,740 million, 2 per cent higher than in 2002. Given the pressure on net interest income as a consequence of muted credit demand and the impact of lower interest rates on the value of deposits, there was continued focus on the insurance business and wealth management. Sales of unit trusts and of capital guaranteed funds were particularly successful.

Net interest income fell by US\$161 million or 7 per cent compared with 2002, largely due to a reduction in spreads on the value of deposits taken in the low interest rate environment and continued pressure on yields in the mortgage business, although there was some benefit from lower cost of funds.

Partly offsetting the decline in net interest income, other operating income at US\$1,182 million was 13 per cent higher than in 2002. HSBC's

position as one of Hong Kong's leading providers of insurance and wealth management services was sustained amid keen competition. Income from wealth management initiatives, including commissions on sales of unit trust products, funds under management, and securities transactions, grew by 38 per cent to US\$408 million. This was achieved by strong growth in sales of unit trusts and capital guaranteed funds, which increased by US\$1.6 billion, or 32 per cent, over 2002.

Net fee income from credit cards was broadly in line with 2002. Despite fierce competition in the market, HSBC maintained its position as the largest credit card issuer in Hong Kong with some 3.1 million cards in circulation, 9 per cent higher than in 2002.

During the year, HSBC continued to place significant emphasis upon the growth and development of its insurance business. HSBC increased sales of regular premium individual life insurance by 59 per cent, growing its market share from 13.9 per cent to 18.6 per cent. Income from the insurance business, including the Mandatory Provident Fund, grew by 53 per cent or US\$118 million.

Operating expenses, excluding goodwill amortisation, were 5 per cent lower than in 2002, with savings in staff costs partly offset by higher marketing costs. Headcount reduced as HSBC continued to migrate a wide range of back office and call centre functions to the Group Service Centres in Guangzhou and Shanghai. The Group Service Centres in mainland China now provide about half the operational support for credit card operations in Hong Kong.

Provisions for bad and doubtful debts were broadly in line with last year. The charge for specific provisions for bad and doubtful debts decreased compared with 2002, mainly due to a reduced charge for unsecured lending (including credit cards), in line with lower personal bankruptcy filings and improved economic conditions in the latter half of the year. This was partly offset by higher provisions against mortgage lending. 2002 benefited from a higher release of general provision. As the economy grows and property prices stop falling the environment for personal credit is expected to improve in 2004.

Commercial Banking in Hong Kong contributed a pre-tax profit, before amortisation of

goodwill, of US\$711 million, a fall of US\$22 million, or 3 per cent.

Net interest income declined by 7 per cent largely due to lower recoveries of suspended interest and the effect of lower spreads on deposits. There was good volume growth in the loan book, despite the impact of SARS and the war in Iraq. This was offset by narrower spreads caused by limited local investment and market pressure as banks competed for quality business. Loan growth was driven by increased demand for finance to support record trade flows between mainland China and the rest of the world, especially in the US. This was particularly evidenced in the manufacturing and transportation sectors. Several new business banking/trade service centres were opened to focus on the business needs of small and medium-sized customers and start-ups.

Other operating income rose by US\$57 million, or 14 per cent, reflecting growth in cash management and trade services. Both benefited from the increase in trade flows and closer liaison between branches of the bank in Hong Kong and mainland China. This was developed in order to service the growth of investment in the Pearl River delta by Hong Kong-based customers. Additionally, Hang Seng Bank opened its first branch in Macau aimed at assisting customers setting-up offices in the territory. Results of this alignment were particularly successful, with referrals significantly higher than anticipated. Trade finance benefited from a campaign specifically aimed at the increase in export trade business which occurs during the peak summer season. Insurance income rose as a consequence of business expansion, increasing by 36 per cent.

Operating expenses were in line with 2002. Staff costs increased marginally as headcount rose to support the insurance business expansion. This was offset by lower legal and professional fees.

Overall, credit quality remained stable reflecting improved economic conditions in the latter part of the year. There was a lower release in general provisions in 2003 as last year benefited from a reduction in latent losses.

Corporate, Investment Banking and Markets reported pre-tax profit, before amortisation of goodwill, of US\$1,275 million, 4 per cent higher than in 2002. Exceptional Global Markets performance was partly offset by a shift from net recovery to net charge for bad and doubtful debts.

Net interest income of US\$1,157 million was broadly in line with last year. Reduced corporate lending spreads, which remained under pressure throughout the year, and weak loan demand, were mitigated by a strong Global Markets performance. Global Markets benefited from successful interest rate positioning and an increased value of funds was switched to debt securities from interbank placements in order to enhance yields.

Other operating income grew strongly to US\$648 million, an increase of US\$184 million or 40 per cent. This was achieved through a significant increase in dealing profits to US\$205 million. HSBC significantly expanded its derivatives capabilities and higher income was earned from both successful positioning and a growing demand from corporate customers for structured tailored solutions. Increased sales of structured transactions, offering yield enhancement products to retail clients, generated further revenue. Debt securities trading achieved a strong turnaround in income during the year, as losses caused by widening credit spreads in 2002 did not recur. Foreign exchange profits rose compared with 2002, with a significant increase in corporate sales. Trading profits were generated as the bank took advantage of US dollar volatility, and the general weakening of the US dollar during the year. This was partly offset by lower Corporate and Investment Banking fees and commissions reflecting a decrease in income from credit facilities.

Operating expenses, before goodwill amortisation, increased by 5 per cent to US\$491 million, with the significant increase in Global Markets' profitability reflected in higher performance-related staff costs.

There was a net charge for bad and doubtful debts of US\$52 million compared with a release of US\$68 million in 2002. This was primarily due to new specific provisions raised against two corporate accounts.

HSBC's **Private Banking** activities in Hong Kong reported pre-tax profit, before goodwill amortisation, of US\$127 million, an increase of 19 per cent over 2002. Funds under management grew by 12 per cent to US\$56 billion, benefiting from US\$7 billion of net new funds as clients moved away from liquid positions into the investment markets.

Net interest income declined by US\$7 million, or 8 per cent, to US\$84 million. Lower margins from

Financial Review (continued)

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free funds and the investment portfolio reflected falling interest rates while the flattening of the yield curve during the year meant that the significant income earned on longer dated assets in 2002 was not repeated. This more than offset the impact of an increase in lending balances as clients borrowed on margin against their investments to reinvest in higher returning securities.

A general improvement in investment markets in the second half of the year saw greater client activity across a range of products. Brokerage, trust services and safekeeping all benefited from the upturn in the markets, and associated fee and commission income increased by 19 per cent to US\$87 million. Greater market activity also stimulated higher sales of tailored structured products for clients and higher volumes of debt securities and derivatives transactions, resulting in a 68 per cent increase in dealing profits. Overall, other operating income increased by 31 per cent to US\$164 million.

Total operating expenses grew by US\$9 million or 8 per cent, reflecting a rise in headcount to support increased client activity and the migration of regional support from Singapore to Hong Kong during the year. There was also higher performance-related remuneration in line with increased profits.

Year ended 31 December 2002 compared with year ended 31 December 2001

Hong Kong continued to suffer from deflation in 2002 and domestic demand remained subdued. An improvement in trade failed to stimulate demand, as unemployment increased and salaries fell.

Against this backdrop, HSBC's operations in Hong Kong reported an operating profit, before provisions, of US\$3,911 million, an increase of US\$34 million, or 1 per cent, compared with 2001, largely through income growth from wealth management products. Pre-tax profit of US\$3,710 million was US\$173 million, or 4 per cent, lower than in 2001 due to a higher bad debt charge and lower investment disposal gains and represented 35 per cent of HSBC's pre-tax profit on this basis. There was no goodwill amortisation in Hong Kong during 2002 and 2001.

Personal Financial Services reported pre-tax profit, before goodwill amortisation, of US\$1,705 million, US\$74 million, or 5 per cent, higher than 2001. The improvement was driven by growth in revenues from wealth management products and

increased card fee income. Significantly higher personal bankruptcy filings during the year resulted in additional provisions for credit card accounts compared with 2001.

Net interest income at US\$2,364 million was broadly in line with 2001. The benefits of increased credit card and mortgage lending together with improved spreads from lower funding costs were largely offset by competitive pricing on residential mortgages and a lower benefit from free funds.

In another year of fierce competition for quality assets and increasing consumer loan write-offs in Hong Kong, HSBC maintained a strong performance. Including cards issued by Hang Seng Bank, HSBC remained the largest personal credit card issuer in Hong Kong with 2.8 million cards in circulation and led the market in cardholder spending and balances. The implementation in 2001 of an enhanced card processing system and continued migration of work to HSBC's Group Service Centres in Guangzhou enabled operational efficiency to be further improved.

Other operating income at US\$1,048 million grew by 19 per cent, compared with 2001, driven by growth in revenues from initiatives related to investment products and the insurance business. Sales of unit trusts and capital guaranteed funds were strong, including the sale of over US\$4.9 billion of funds during the year, a rise of 36 per cent compared with 2001. Revenues from insurance and underwriting also increased significantly.

HSBC had grown to be one of the leading distributors of retail funds in Hong Kong by the end of the year. In 2002's uncertain investment market, HSBC achieved significant growth in the sale of unit trusts through the promotion of 14 guaranteed/capital secured funds designed to meet customers' demands for capital protection. In the low interest rate environment, HSBC also introduced a range of alternative deposit products. There was strong growth in funds under management, which rose 68 per cent compared with 2001.

The insurance business remained a key focus in HSBC's strategy in Hong Kong. Significant growth in personal insurance was achieved, outpacing market growth and giving HSBC a larger market share of new business.

Costs in Hong Kong were in line with 2001. The increased cost of continuing marketing initiatives and

higher IT costs supporting business growth were funded by a reduction in staff costs. Costs fell as back office processing functions were transferred to HSBC's Group Service Centres in India and China, and pension top-up fees in Hang Seng Bank in 2001 were not repeated.

Customer demand for remote services continue to grow and the bank responded with further investment in internet banking. According to various surveys in 2002, HSBC has the largest online banking market share in Hong Kong, with over 470,000 registered users. The e-channel proposition was enhanced during 2002 introducing a number of new solutions and a new investment page. Online@hsbc won a number of awards in 2002, offering more than 50 services, including a range of insurance personal loans, and payment services. Hang Seng Bank's comprehensive range of internet banking services had similarly become an important part of its multi-channel delivery network. By the end of 2002, more than 250,000 customers had registered for its Personal e-Banking Services, and internet transactions had grown to more than 14 per cent of total transactions.

The provision for bad and doubtful debts rose by 44 per cent to US\$362 million as significantly higher personal bankruptcy filings resulted in a higher charge for both credit cards and other retail lending. However, provisions against the mortgage portfolio fell as delinquency rates reduced.

Commercial Banking in Hong Kong contributed a pre-tax profit, before amortisation of goodwill, of US\$733 million, broadly in line with 2001.

Net interest income decreased by US\$69 million, or 10 per cent, as low interest rates reduced the value of interest-free balances. In addition, there were lower balances and reduced spreads on deposits, partly offset by a higher release of suspended interest.

Net fees and commissions increased by US\$16 million, or 6 per cent, due to higher levels of fee income on investment funds as a result of cross-selling initiatives with HSBC Asset Management and Treasury. Insurance and trade services income also increased. Operating expenses were US\$33 million, or 8 per cent, lower than 2001 due to rationalisation of sales teams within the area and the transfer of back office processing functions to Group Service Centres.

The net release of provisions for bad and doubtful debts was higher than 2001 mainly due to releases of general provisions reflecting a reduction in latent losses.

Corporate, Investment Banking and Markets reported pre-tax profit, before amortisation of goodwill, of US\$1,226 million, broadly in line with 2001.

Net interest income was 5 per cent higher than in 2001 reflecting the benefit of a strong performance in Global Markets as the accrual books were well positioned for the low interest rate environment. This was partly offset by lower net interest income from Corporate and Institutional Banking business, as lower spreads on deposits in HSBC combined with reduced spreads on lending and subdued loan demand in Hang Seng Bank. There was also a considerable reduction in the benefit of net free funds as average interest rates fell.

Other operating income was US\$83 million, or 15 per cent, lower as growth in fee income was more than offset by lower dealing profits. Dealing profits fell by US\$108 million as debt securities used for interest rate trading purposes generated net interest income while corresponding derivative positions produced dealing losses in the current low interest rate environment. In addition, there were dealing losses on debt securities trading due to widening credit spreads following a series of corporate scandals in the US. Growth in fee income reflected higher income from structured finance and from corporate finance transactions.

Operating expenses were in line with 2001.

The net release of provisions during 2002 was US\$68 million, reflecting releases of specific provisions against corporate customers. In addition, there was a release of general provisions reflecting a reduction in latent losses.

HSBC's **Private Banking** activities in Hong Kong reported pre-tax profits, before goodwill amortisation, in 2002 of US\$107 million, an increase of 27 per cent over 2001. Funds under management grew by 23 per cent to US\$50 billion at 31 December 2002, benefiting from net new funds from clients, which more than offset the effect of falling stock prices.

Net interest income at US\$91 million was 17 per cent higher than in 2001. The steeper yield curve, reflecting the fall in short-term interest rates

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compared with long-term rates, increased margins as surplus funds were deployed in longer-dated assets. Higher income also resulted from the growth of the investment portfolio.

Other operating income increased by 18 per cent to US\$125 million. Fees and commission income for the period was US\$73 million, an increase of 9 per cent over 2001. This growth was driven by higher insurance referral fees and fund management income. Dealing income rose to US\$44 million, an

increase of US\$11 million, primarily due to a higher volume of client transactions in the debt securities and derivatives markets and increased sales of client-tailored structured products.

Operating expenses, excluding goodwill amortisation, of US\$109 million increased by US\$12 million, or 12 per cent, compared with 2001. The increase was predominantly driven by costs associated with the reorganisation of Private Banking activities in Hong Kong.

Profit/(loss) excluding goodwill amortisation by customer group

Year ended 31 December 2003							
	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
Hong Kong							
Net interest income	2,203	602	1,157	84	(145)	—	3,901
Dividend income	2	1	3	—	25	—	31
Net fees and commissions	630	315	382	87	(31)	—	1,383
Dealing profits	40	31	205	74	(29)	—	321
Other income	510	107	58	3	313	(395)	596
Other operating income	1,182	454	648	164	278	(395)	2,331
Operating income	3,385	1,056	1,805	248	133	(395)	6,232
Operating expenses excluding goodwill amortisation ¹	(1,286)	(372)	(491)	(118)	(340)	395	(2,212)
Operating profit/(loss) before provisions¹	2,099	684	1,314	130	(207)	—	4,020
Provisions for bad and doubtful debts	(366)	22	(52)	(2)	(2)	—	(400)
Provisions for contingent liabilities and commitments	—	1	—	—	(7)	—	(6)
Amounts written off fixed asset investments	—	—	5	—	26	—	31
Operating profit/(loss)¹	1,733	707	1,267	128	(190)	—	3,645
Share of operating profit in associates ²	5	—	1	—	11	—	17
Gains/(losses) on disposal of investments and tangible fixed assets	2	4	7	(1)	56	—	68
Profit/(loss) on ordinary activities before tax³	1,740	711	1,275	127	(123)	—	3,730
	%	%	%	%	%		%
Share of HSBC's pre-tax profits ³	12.1	5.0	8.9	0.9	(1.0)		25.9
Cost:income ratio ¹	38.0	35.2	27.2	47.6	255.6		35.5
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Selected balance sheet data⁴							
Loans and advances to customers (net)	33,494	12,760	23,441	2,357	1,936		73,988
Total assets ⁵	36,410	17,783	120,890	7,555	14,849		197,487
Customer accounts	111,145	31,490	13,286	7,862	241		164,024
The following assets and liabilities were also significant to Corporate, Investment Banking and Markets:							
Loans and advances to banks (net)			34,165				
Debt securities, treasury bills and other eligible bills			57,831				
Deposits by banks			4,665				
Goodwill amortisation:							
1 excluded from (1) above	—	2	1	—	—		3
2 excluded from (2) above	—	—	—	—	(1)		(1)
3 excluded from (3) above	—	2	1	—	(1)		2
4 Third party only.							
5 Excluding Hong Kong Government certificates of indebtedness.							

Year ended 31 December 2001							
Hong Kong	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
Net interest income	2,355	717	1,105	78	(90)	—	4,165
Dividend income	3	2	4	—	17	—	26
Net fees and commissions	478	268	376	67	(17)	—	1,172
Dealing profits	39	23	129	33	(6)	—	218
Other income	357	81	38	6	439	(485)	436
Other operating income	877	374	547	106	433	(485)	1,852
Operating income	3,232	1,091	1,652	184	343	(485)	6,017
Operating expenses excluding goodwill amortisation ¹	(1,353)	(404)	(494)	(97)	(277)	485	(2,140)
Operating profit before provisions ²	1,879	687	1,158	87	66	—	3,877
Provisions for bad and doubtful debts	(252)	30	23	(1)	3	—	(197)
Provisions for contingent liabilities and commitments	—	4	11	—	(9)	—	6
Amounts written off fixed asset investments	—	—	(2)	—	(16)	—	(18)
Operating profit ¹	1,627	721	1,190	86	44	—	3,668
Share of operating profit in associates ²	2	—	(1)	(2)	18	—	17
Gains on disposal of investments and tangible fixed assets	2	5	55	—	136	—	198
Profit on ordinary activities before tax ³	1,631	726	1,244	84	198	—	3,883
	%	%	%	%	%		%
Share of HSBC's pre-tax profits ³	18.6	8.2	14.1	1.0	2.2		44.1
Cost:income ratio ¹	41.9	37.0	29.9	52.7	80.8		35.6
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Selected balance sheet data ⁴							
Loans and advances to customers (net)	34,248	9,790	20,183	1,232	1,906		67,359
Total assets ^{5,6}	35,765	13,843	106,791	6,573	12,680		175,652
Customer accounts	102,536	25,659	11,749	6,590	10		146,544
The following assets and liabilities were also significant to Corporate, Investment Banking and Markets:							
Loans and advances to banks (net)			37,558				
Debt securities, treasury bills and other eligible bills			44,528				
Deposits by banks			3,359				

Goodwill amortisation:

1 excluded from (1) above	—	—	—	—	—	—	—
2 excluded from (2) above	—	—	—	—	—	—	—
3 excluded from (3) above	—	—	—	—	—	—	—

4 Third party only.

5 Excluding Hong Kong Government certificates of indebtedness.

6 Figures for 2001 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

Average balance sheet and net interest income

Average balances and the related interest are shown for the domestic operations of HSBC's principal

commercial banks by geographic region with all other commercial banking and investment banking balances and transactions included in 'Other operations'. Additional information on the basis of preparation is set out in the notes on page 131.

Assets		Year ended 31 December								
		2003			2002			2001		
		Average balance US\$m	Interest income US\$m	Yield %	Average balance US\$m	Interest income US\$m	Yield %	Average balance US\$m	Interest income US\$m	Yield %
Short-term funds and loans to banks										
Europe	HSBC Bank plc	22,534	657	2.92	16,691	595	3.56	13,841	803	5.80
	HSBC Private Banking Holdings (Suisse) S.A.	3,394	75	2.21	5,500	144	2.62	10,529	488	4.63
	CCF	17,519	573	3.27	12,650	647	5.11	12,600	787	6.25
	CCF	17,519	573	3.27	12,650	647	5.11	12,600	787	6.25
Hong Kong	Hang Seng Bank	10,172	212	2.08	15,205	409	2.69	19,285	905	4.69
	The Hongkong and Shanghai Banking Corporation	20,735	517	2.49	17,776	496	2.79	23,455	1,129	4.81
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation	6,893	138	2.00	6,686	187	2.80	5,710	268	4.69
	HSBC Bank Malaysia Berhad	693	17	2.45	547	15	2.74	1,346	43	3.19
	HSBC Bank Middle East	1,925	29	1.51	1,857	39	2.10	1,846	78	4.23
	HSBC Bank Middle East	1,925	29	1.51	1,857	39	2.10	1,846	78	4.23
North America	HSBC USA Inc	1,808	35	1.94	2,248	63	2.80	3,845	179	4.66
	HSBC Bank Canada	1,711	31	1.81	1,291	26	2.01	1,574	64	4.07
	HSBC Markets Inc.	2,535	20	0.79	3,756	48	1.28	3,136	85	2.71
	HSBC Mexico ¹	4,199	214	5.10	421	32	7.60	—	—	—
South America	Brazilian operations	1,237	242	19.56	1,065	177	16.62	1,306	206	15.77
	HSBC Bank Argentina S.A.	231	2	0.87	164	14	8.54	746	39	5.23
Other operations		7,206	159	2.21	8,577	328	3.82	10,977	710	6.47
		<u>102,792</u>	<u>2,921</u>	<u>2.84</u>	<u>94,434</u>	<u>3,220</u>	<u>3.41</u>	<u>110,196</u>	<u>5,784</u>	<u>5.25</u>
Loans and advances to customers										
Europe	HSBC Bank plc	130,178	6,739	5.18	105,456	5,865	5.56	89,987	6,056	6.73
	HSBC Private Banking Holdings (Suisse) S.A.	3,385	79	2.33	2,881	81	2.81	2,695	112	4.16
	CCF	37,456	1,897	5.06	29,111	1,657	5.69	25,559	1,705	6.67
	Household ¹	5,934	671	11.31	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	29,138	938	3.22	28,820	1,083	3.76	28,673	1,688	5.89
	The Hongkong and Shanghai Banking Corporation	41,517	1,517	3.65	39,040	1,713	4.39	37,142	2,324	6.26
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation	28,594	1,457	5.10	22,898	1,284	5.61	20,343	1,351	6.64
	HSBC Bank Malaysia Berhad	4,567	266	5.82	4,237	251	5.92	3,829	242	6.32
	HSBC Bank Middle East	5,725	352	6.15	5,243	366	6.98	4,668	410	8.78
	HSBC Bank Middle East	5,725	352	6.15	5,243	366	6.98	4,668	410	8.78
North America	HSBC USA Inc	45,727	2,256	4.93	44,130	2,419	5.48	41,457	2,815	6.79
	Household ¹	81,973	9,631	11.75	—	—	—	—	—	—
	HSBC Bank Canada	18,791	982	5.23	15,631	835	5.34	14,731	988	6.71
	HSBC Markets Inc.	3,515	24	0.68	8,975	115	1.28	7,197	183	2.54
South America	HSBC Mexico ¹	9,103	862	9.47	913	102	11.17	—	—	—
	Brazilian operations	2,930	1,044	35.63	2,542	821	32.30	2,879	896	31.12
	HSBC Bank Argentina S.A.	792	103	13.01	889	261	29.36	2,122	371	17.48
Other operations		20,284	627	3.09	16,118	671	4.16	15,222	745	4.89
		<u>469,609</u>	<u>29,445</u>	<u>6.27</u>	<u>326,884</u>	<u>17,524</u>	<u>5.36</u>	<u>296,504</u>	<u>19,886</u>	<u>6.71</u>

¹ Yields annualised on the basis of the period of ownership in the year of acquisition.

Financial Review (continued)

in US\$m unless stated

		Year ended 31 December								
		2003			2002			2001		
<i>Assets (continued)</i>		Average balance US\$m	Interest income US\$m	Yield %	Average balance US\$m	Interest income US\$m	Yield %	Average balance US\$m	Interest income US\$m	Yield %
Trading securities										
Europe	HSBC Bank plc	24,758	945	3.82	25,104	1,084	4.32	18,352	963	5.25
	CCF	7,043	236	3.35	10,435	235	2.25	13,275	508	3.83
Hong Kong	Hang Seng Bank	536	15	2.80	569	18	3.16	761	40	5.26
	The Hongkong and Shanghai Banking Corporation	11,351	334	2.94	11,915	432	3.63	10,667	545	5.11
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	2,823	124	4.39	2,452	112	4.57	2,042	113	5.53
	HSBC Bank Malaysia Berhad	377	11	2.92	309	9	2.91	223	7	3.14
North America	HSBC USA Inc	4,236	102	2.41	4,294	140	3.26	3,898	181	4.64
	HSBC Bank Canada	774	17	2.20	755	18	2.38	475	19	4.00
	HSBC Markets Inc.	8,837	303	3.43	16,768	752	4.48	17,439	877	5.03
	HSBC Mexico ¹	4,303	261	6.07	346	27	7.80	—	—	—
South America	Brazilian operations	—	—	—	34	—	—	104	8	7.69
	HSBC Bank Argentina S.A. ...	7	1	14.29	2	—	—	116	16	13.79
Other operations		4,115	138	3.35	1,818	84	4.62	1,974	135	6.84
		<u>69,160</u>	<u>2,487</u>	<u>3.60</u>	<u>74,801</u>	<u>2,911</u>	<u>3.89</u>	<u>69,326</u>	<u>3,412</u>	<u>4.92</u>
Investment securities										
Europe	HSBC Bank plc	16,449	659	4.01	13,071	623	4.77	14,939	851	5.70
	HSBC Private Banking Holdings (Suisse) S.A.	14,298	397	2.78	14,454	503	3.48	11,376	611	5.37
	CCF	3,365	210	6.24	2,052	141	6.87	2,425	130	5.36
	Household ¹	231	2	0.87	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	16,458	460	2.79	10,629	375	3.53	8,529	453	5.31
	The Hongkong and Shanghai Banking Corporation	31,774	829	2.61	29,945	955	3.19	24,937	1,173	4.70
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	13,906	487	3.50	10,534	448	4.25	8,587	475	5.53
	HSBC Bank Malaysia Berhad	1,101	37	3.36	981	34	3.47	733	28	3.82
	HSBC Bank Middle East	873	24	2.75	760	30	3.95	755	48	6.36
North America	HSBC USA Inc	18,753	894	4.77	17,795	927	5.21	19,244	1,232	6.40
	Household ¹	3,370	59	1.75	—	—	—	—	—	—
	HSBC Bank Canada	2,681	75	2.80	2,440	78	3.20	2,105	99	4.70
	HSBC Markets Inc.	17	1	5.88	17	1	5.88	17	1	5.88
South America	HSBC Mexico ¹	2,041	254	12.44	175	14	8.00	—	—	—
	Brazilian operations	1,323	250	18.90	1,470	314	21.36	2,745	462	16.83
Other operations	HSBC Bank Argentina S.A. ...	120	13	10.83	185	34	18.38	949	113	11.91
	8,056	345	4.28	7,117	323	4.54	5,481	365	6.66
		<u>134,816</u>	<u>4,996</u>	<u>3.71</u>	<u>111,625</u>	<u>4,800</u>	<u>4.30</u>	<u>102,822</u>	<u>6,041</u>	<u>5.88</u>

¹ Yields annualised on the basis of the period of ownership in the year of acquisition.

		Year ended 31 December								
		2003			2002			2001		
Assets (continued)		Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
		US\$m	US\$m	%	US\$m	US\$m	%	US\$m	US\$m	%
Other interest-earning assets										
Europe	HSBC Bank plc	6,190	173	2.79	10,384	198	1.91	2,981	218	7.31
	HSBC Private Banking Holdings (Suisse) S.A.	5,420	102	1.88	3,964	119	3.00	287	85	29.62
	CCF	3,276	34	1.04	2,701	56	2.07	1,586	82	5.17
	Hang Seng Bank	1,097	25	2.28	1,158	33	2.85	1,081	56	5.18
Hong Kong	The Hongkong and Shanghai Banking Corporation	12,680	264	2.08	9,128	238	2.61	7,958	353	4.44
	The Hongkong and Shanghai Banking Corporation	4,511	81	1.80	4,349	87	2.00	4,799	181	3.77
	HSBC Bank Malaysia Berhad	22	1	4.55	25	1	4.00	72	4	5.56
	HSBC Bank Middle East	491	9	1.83	744	17	2.28	915	46	5.03
North America	HSBC USA Inc	371	17	4.58	320	24	7.50	665	46	6.92
	Household ¹	484	23	4.75	—	—	—	—	—	—
	HSBC Bank Canada	170	10	5.88	1	1	100.00	—	3	—
	HSBC Markets Inc.	159	4	2.52	64	2	3.13	54	2	3.70
	HSBC Mexico ¹	74	3	4.05	—	—	—	—	—	—
South America	Brazilian operations	162	27	16.67	196	24	12.24	370	20	5.41
	HSBC Bank Argentina S.A.	44	2	4.55	53	6	11.32	50	5	10.00
Other operations		(33,113)	(656)	1.98	(32,082)	(666)	2.08	(20,001)	(963)	4.81
		2,038	119	5.84	1,005	140	13.93	817	138	16.89
Total interest-earning assets										
Europe	HSBC Bank plc	200,109	9,173	4.58	170,706	8,365	4.90	140,100	8,891	6.35
	HSBC Private Banking Holdings (Suisse) S.A.	26,497	653	2.46	26,799	847	3.16	24,887	1,296	5.21
	CCF	68,659	2,950	4.30	56,949	2,736	4.80	55,445	3,212	5.79
	Household ¹	6,165	673	10.92	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	57,401	1,650	2.87	56,381	1,918	3.40	58,329	3,142	5.39
	The Hongkong and Shanghai Banking Corporation	118,057	3,461	2.93	107,804	3,834	3.56	104,159	5,524	5.30
	The Hongkong and Shanghai Banking Corporation	56,727	2,287	4.03	46,919	2,118	4.51	41,481	2,388	5.76
Rest of Asia-Pacific	HSBC Bank Malaysia Berhad	6,760	332	4.91	6,099	310	5.08	6,203	324	5.22
	HSBC Bank Middle East	9,014	414	4.59	8,604	452	5.25	8,184	582	7.11
	HSBC USA Inc	70,895	3,304	4.66	68,787	3,573	5.19	69,109	4,453	6.44
	Household ¹	85,827	9,713	11.32	—	—	—	—	—	—
North America	HSBC Bank Canada	24,127	1,115	4.62	20,118	958	4.76	18,885	1,173	6.21
	HSBC Markets Inc.	15,063	352	2.34	29,580	918	3.10	27,843	1,148	4.12
	HSBC Mexico ¹	19,720	1,594	8.08	1,855	175	9.43	—	—	—
	Brazilian operations	5,652	1,563	27.65	5,307	1,336	25.17	7,404	1,592	21.50
South America	HSBC Bank Argentina S.A.	1,194	121	10.13	1,293	315	24.36	3,983	544	13.66
	Other operations	6,548	613	9.36	1,548	740	47.80	13,653	992	7.27
		778,415	39,968	5.13	608,749	28,595	4.70	579,665	35,261	6.08
Summary										
Total interest-earning assets		778,415	39,968	5.13	608,749	28,595	4.70	579,665	35,261	6.08
Provisions for bad and doubtful debts		(12,816)			(7,809)			(7,816)		
Non interest-earning assets		192,251			132,227 ²			124,559 ²		
Total assets and interest income		957,850	39,968	4.17	733,167	28,595	3.90	696,408	35,261	5.06

1 Yields annualised on the basis of the period of ownership in the year of acquisition.

2 Figures for 2002 and 2001 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

Financial Review (continued)

		Year ended 31 December		
		2003	2002	2001
		%	%	%
Assets (continued)				
Distribution of average total assets				
Europe	HSBC Bank plc	27.8	28.7	25.1
	HSBC Private Banking			
	Holdings (Suisse) S.A.	3.0	3.8	3.8
	CCF	9.3	9.7	10.1
	Household ¹	0.7	—	—
Hong Kong	Hang Seng Bank	6.4	7.9	8.8
	The Hongkong and Shanghai			
	Banking Corporation	16.7	18.6	19.3
Rest of Asia-Pacific	The Hongkong and Shanghai			
	Banking Corporation	6.8	7.1	6.9
	HSBC Bank Malaysia			
	Berhad	0.7	0.8	0.9
North America	HSBC Bank Middle East	1.0	1.2	1.2
	HSBC USA Inc	9.6	11.5	12.3
	Household ¹	10.2	—	—
	HSBC Bank Canada	2.6	2.8	2.9
	HSBC Markets Inc.	2.6	5.3	5.5
South America	HSBC Mexico ¹	2.1	0.3	
	Brazilian operations	0.9	1.1	1.4
	HSBC Bank Argentina S.A. ...	0.1	0.2	0.7
Other operations (including consolidation				
adjustments)		(0.5)	1.0	1.1
		<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

¹ Yields annualised on the basis of the period of ownership in the year of acquisition.

		Year ended 31 December								
		2003			2002			2001		
Liabilities and shareholders' funds		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
		US\$m	US\$m	%	US\$m	US\$m	%	US\$m	US\$m	%
Deposits by banks¹										
Europe	HSBC Bank plc	19,898	404	2.03	18,259	376	2.06	13,890	451	3.25
	HSBC Private Banking Holdings (Suisse) S.A.	1,865	28	1.50	1,976	60	3.04	1,708	66	3.86
	CCF	12,594	398	3.16	13,456	596	4.43	17,393	1,136	6.53
	Household ²	734	31	4.22	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	161	2	1.24	83	1	1.20	256	9	3.52
	The Hongkong and Shanghai Banking Corporation	2,358	28	1.19	2,066	35	1.69	1,933	70	3.62
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation	2,599	81	3.12	2,683	103	3.84	2,757	146	5.30
	HSBC Bank Malaysia Berhad	121	3	2.48	113	3	2.65	32	1	3.13
	HSBC Bank Middle East	764	16	2.09	531	15	2.82	315	14	4.44
North America	HSBC USA Inc	3,915	39	1.00	4,216	46	1.09	3,702	100	2.70
	HSBC Bank Canada	501	11	2.20	679	26	3.83	439	18	4.10
	HSBC Markets Inc.	2,191	22	1.00	3,190	44	1.38	3,654	114	3.12
	HSBC Mexico ²	1,039	59	5.68	213	11	5.16	—	—	—
South America	Brazilian operations	527	93	17.65	693	79	11.40	1,177	106	9.01
	HSBC Bank Argentina S.A. ...	176	14	7.95	164	69	42.07	432	29	6.71
Other operations		5,346	80	1.50	4,772	122	2.56	5,506	199	3.61
		<u>54,789</u>	<u>1,309</u>	<u>2.39</u>	<u>53,094</u>	<u>1,586</u>	<u>2.99</u>	<u>53,194</u>	<u>2,459</u>	<u>4.62</u>
Customer accounts¹										
Europe	HSBC Bank plc	134,421	2,741	2.04	106,301	2,551	2.40	90,055	3,300	3.66
	HSBC Private Banking Holdings (Suisse) S.A.	19,238	401	2.08	20,476	549	2.68	20,839	937	4.50
	CCF	17,435	606	3.48	11,841	593	5.01	12,174	665	5.46
	Household ²	412	28	6.80	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	49,492	289	0.58	48,074	448	0.93	49,842	1,502	3.01
	The Hongkong and Shanghai Banking Corporation	86,836	379	0.44	82,535	616	0.75	81,484	2,219	2.72
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation	35,933	719	2.00	29,965	705	2.35	25,581	969	3.79
	HSBC Bank Malaysia Berhad	4,796	142	2.96	4,347	131	3.01	4,456	145	3.25
	HSBC Bank Middle East	5,863	61	1.04	6,176	106	1.72	6,311	250	3.96
North America	HSBC USA Inc	44,986	553	1.23	45,438	860	1.89	45,817	1,609	3.51
	HSBC Bank Canada	15,775	326	2.07	13,708	257	1.87	12,876	474	3.68
	HSBC Markets Inc.	4,915	52	1.06	6,972	112	1.61	7,820	295	3.77
	HSBC Mexico ²	11,542	408	3.53	1,032	51	4.94	—	—	—
South America	Brazilian operations	3,888	755	19.42	3,066	491	16.01	4,086	598	14.64
	HSBC Bank Argentina S.A. ...	778	57	7.33	757	217	28.67	2,689	226	8.40
Other operations		29,130	510	1.75	25,917	653	2.52	23,919	1,062	4.44
		<u>465,440</u>	<u>8,027</u>	<u>1.72</u>	<u>406,605</u>	<u>8,340</u>	<u>2.05</u>	<u>387,949</u>	<u>14,251</u>	<u>3.67</u>

1 Further analysis is given on pages 179 and 180.

2 Costs annualised on the basis of the period of ownership in the year of acquisition.

Financial Review (continued)

Liabilities and shareholders' funds (continued)		Year ended 31 December								
		2003			2002			2001		
		Average balance US\$m	Interest expense US\$m	Cost %	Average balance US\$m	Interest expense US\$m	Cost %	Average balance US\$m	Interest expense US\$m	Cost %
CDs and other money market instruments¹										
Europe	HSBC Bank plc	5,417	151	2.79	2,088	83	3.98	1,257	65	5.17
	CCF	5,739	162	2.82	4,856	201	4.14	5,547	262	4.72
Hong Kong	Hang Seng Bank	1,399	36	2.57	2,150	65	3.02	2,040	94	4.61
	The Hongkong and Shanghai Banking Corporation	8,257	321	3.89	5,331	258	4.84	3,851	242	6.28
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	3,163	121	3.83	1,659	69	4.16	1,298	67	5.16
	HSBC Bank Malaysia Berhad	263	8	3.04	148	7	4.73	121	6	4.96
North America	HSBC USA Inc.	1,604	26	1.62	2,286	62	2.71	2,030	92	4.53
	Household ²	5,522	60	1.09	—	—	—	—	—	—
	HSBC Bank Canada	3,132	84	2.68	2,168	56	2.58	2,193	104	4.74
	HSBC Mexico ²	4,052	169	4.17	318	22	6.92	—	—	—
South America	Brazilian operations	63	12	19.05	53	14	26.42	29	4	13.79
	HSBC Bank Argentina S.A. ...	—	—	—	105	7	6.67	284	21	7.39
Other operations		1,479	59	3.99	763	16	2.10	475	3	0.63
		<u>40,090</u>	<u>1,209</u>	<u>3.02</u>	<u>21,925</u>	<u>860</u>	<u>3.92</u>	<u>19,125</u>	<u>960</u>	<u>5.02</u>
Loan capital										
Europe	HSBC Bank plc	8,790	466	5.30	7,053	463	6.56	10,136	625	6.17
	CCF	5,686	187	3.29	3,941	164	4.16	2,939	163	5.55
Hong Kong	Household ²	2,230	111	4.98	—	—	—	—	—	—
	The Hongkong and Shanghai Banking Corporation	1,796	80	4.45	1,786	83	4.65	1,805	99	5.48
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	270	17	6.30	151	12	7.95	47	6	12.77
North America	HSBC USA Inc.	3,284	178	5.42	3,396	214	6.30	3,969	280	7.05
	Household ²	71,346	1,779	2.49	—	—	—	—	—	—
	HSBC Bank Canada	1,288	66	5.12	1,014	65	6.41	1,272	80	6.29
	HSBC Mexico ²	188	13	6.91	19	2	10.53	—	—	—
South America	Brazilian operations	205	46	22.44	271	44	16.24	208	11	5.29
	HSBC Bank Argentina S.A. ...	353	30	8.50	319	62	19.44	245	24	9.80
Other operations		9,324	133	1.43	7,148	167	2.34	5,952	264	4.44
		<u>104,760</u>	<u>3,106</u>	<u>2.96</u>	<u>25,098</u>	<u>1,276</u>	<u>5.08</u>	<u>26,573</u>	<u>1,552</u>	<u>5.84</u>

1 Further analysis is given on page 181.

2 Costs annualised on the basis of the period of ownership in the year of acquisition.

Liabilities and shareholders' funds (continued)		Year ended 31 December								
		2003			2002			2001		
		Average balance US\$m	Interest expense US\$m	Cost %	Average balance US\$m	Interest expense US\$m	Cost %	Average balance US\$m	Interest expense US\$m	Cost %
Other interest bearing liabilities										
Europe	HSBC Bank plc	21,502	213	0.99	21,006	253	1.20	10,273	525	5.11
	HSBC Private Banking Holdings (Suisse) S.A.	1,509	26	1.72	1,645	37	2.25	1,152	69	5.99
	CCF	12,994	327	2.52	10,725	154	1.44	6,496	92	1.42
	Household ¹	1,359	65	4.78	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	639	15	2.35	684	19	2.78	869	42	4.83
	The Hongkong and Shanghai Banking Corporation	8,178	136	1.66	7,753	179	2.31	7,367	309	4.19
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	10,732	202	1.88	8,744	195	2.23	7,433	273	3.67
	HSBC Bank Malaysia Berhad	246	3	1.22	51	1	1.96	40	1	2.50
	HSBC Bank Middle East	335	9	2.69	179	6	3.35	46	4	8.70
North America	HSBC USA Inc	10,317	240	2.33	9,545	280	2.93	7,425	462	6.22
	Household ¹	2,077	7	0.34	—	—	—	—	—	—
	HSBC Bank Canada	691	16	2.32	415	15	3.61	374	16	4.28
	HSBC Markets Inc.	7,680	276	3.59	19,141	832	4.35	16,568	740	4.47
South America	Brazilian operations	296	48	16.22	467	79	16.92	633	133	21.01
	HSBC Bank Argentina S.A. ...	346	16	4.62	299	(5)	(1.67)	80	19	23.75
Other operations		(49,719)	(880)	1.77	(47,127)	(972)	2.06	(30,800)	(1,371)	4.45
		29,182	719	2.46	33,527	1,073	3.20	27,956	1,314	4.70

¹ Costs annualised on the basis of the period of ownership in the year of acquisition.

Financial Review (continued)

Liabilities and shareholders' funds (continued)		Year ended 31 December								
		2003			2002			2001		
		Average balance US\$m	Interest expense US\$m	Cost %	Average balance US\$m	Interest expense US\$m	Cost %	Average balance US\$m	Interest expense US\$m	Cost %
Total interest bearing liabilities										
Europe	HSBC Bank plc	190,028	3,975	2.09	154,707	3,726	2.41	125,611	4,966	3.95
	HSBC Private Banking Holdings (Suisse) S.A.	22,612	455	2.01	24,097	646	2.68	23,699	1,072	4.52
	CCF	54,448	1,680	3.09	44,819	1,708	3.81	44,549	2,318	5.20
	Household ¹	4,735	235	4.96	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	51,691	342	0.66	50,991	533	1.05	53,007	1,647	3.11
	The Hongkong and Shanghai Banking Corporation	107,425	944	0.88	99,471	1,171	1.18	96,440	2,939	3.05
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	52,697	1,140	2.16	43,202	1,084	2.51	37,116	1,461	3.94
	HSBC Bank Malaysia Berhad	5,426	156	2.88	4,659	142	3.05	4,649	153	3.29
	HSBC Bank Middle East	6,962	86	1.24	6,886	127	1.84	6,672	268	4.02
North America	HSBC USA Inc	64,106	1,036	1.62	64,881	1,462	2.25	62,943	2,543	4.04
	Household ¹	78,945	1,846	2.34	—	—	—	—	—	—
	HSBC Bank Canada	21,387	503	2.35	17,984	419	2.33	17,154	692	4.03
	HSBC Markets Inc.	14,786	350	2.37	29,303	988	3.37	28,042	1,149	4.10
	HSBC Mexico ¹	16,821	649	3.86	1,582	86	5.44	—	—	—
South America	Brazilian operations	4,979	954	19.16	4,550	707	15.54	6,133	852	13.89
	HSBC Bank Argentina S.A. ...	1,653	117	7.08	1,644	350	21.29	3,730	319	8.55
Other operations		(4,440)	(98)	2.21	(8,527)	(14)	0.16	5,052	157	3.11
		<u>694,261</u>	<u>14,370</u>	<u>2.07</u>	<u>540,249</u>	<u>13,135</u>	<u>2.43</u>	<u>514,797</u>	<u>20,536</u>	<u>3.99</u>
Summary										
Total interest-bearing liabilities		694,261	14,370	2.07	540,249	13,135	2.43	514,797	20,536	3.99
Non interest-bearing current accounts		44,233			40,220			36,090		
Shareholders' funds & other non interest- bearing liabilities		219,356			152,698 ²			145,521 ²		
Total liabilities & interest expense		<u>957,850</u>	<u>14,370</u>	<u>1.50</u>	<u>733,167</u>	<u>13,135</u>	<u>1.79</u>	<u>696,408</u>	<u>20,536</u>	<u>2.95</u>

¹ Costs annualised on the basis of the period of ownership in the year of acquisition.

² Figures for 2002 and 2001 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares' and 38 'Accounting for ESSP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

		Year ended 31 December		
Net interest margin		2003 %	2002 %	2001 %
Europe	HSBC Bank plc	2.60	2.72	2.80
	HSBC Private Banking Holdings (Suisse) S.A.	0.75	0.75	0.90
	CCF	1.85	1.81	1.61
	Household ¹	7.10	—	—
Hong Kong	Hang Seng Bank	2.28	2.46	2.56
	The Hongkong and Shanghai Banking Corporation	2.13	2.47	2.48
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	2.02	2.20	2.23
	HSBC Bank Malaysia Berhad	2.60	2.76	2.76
	HSBC Bank Middle East	3.64	3.78	3.84
North America	HSBC USA Inc.	3.20	3.07	2.76
	Household ¹	9.17	—	—
	HSBC Bank Canada	2.54	2.68	2.55
	HSBC Markets Inc.	0.01	(0.24)	—
	HSBC Mexico ¹	4.79	4.80	—
South America	Brazilian operations	10.77	11.85	9.99
	HSBC Bank Argentina S.A. ...	0.34	(2.71)	5.65
Other operations		10.86	48.71	6.12
		<u>3.29</u>	<u>2.54</u>	<u>2.54</u>

¹ Net interest margins annualised on the basis of the period of ownership in the year of acquisition.

Notes

- (i) Average balances are based on daily averages for the principal areas of HSBC's banking activities with monthly or less frequent averages used elsewhere.
- (ii) 'Loans accounted for on a non-accrual basis' and 'Loans on which interest has been accrued but suspended' have been included in 'Loans and advances to banks' and 'Loans and advances to customers'. Interest income on such loans is included in the consolidated profit and loss account to the extent to which it has been received.
- (iii) Balances and transactions with fellow subsidiaries are reported gross in the principal commercial banking and consumer finance entities within 'Other interest-earning assets' and 'Other interest-bearing liabilities' as appropriate and the elimination entries are included within 'Other operations' in those two categories.
- (iv) Other than as noted in (iii) above, 'Other operations' comprise the operations of the principal commercial banking and consumer finance entities outside their domestic markets and all other banking operations.
- (v) Non-equity minority interests are included within shareholders' funds and other non interest-bearing liabilities and the related coupon payments are included within minority interests in the profit and loss account.

Financial Review (continued)

Analysis of changes in net interest income

The following table allocates changes in net interest income between volume and rate for 2003 compared

with 2002, and for 2002 compared with 2001.

Changes due to a combination of volume and rate are allocated to rate.

		2003 compared with 2002			2002 compared with 2001			2001
		Increase/(decrease)			Increase/(decrease)			
Interest income		2003	Volume	Rate	2002	Volume	Rate	2001
		US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Short-term funds and loans to banks								
Europe	HSBC Bank plc	657	208	(146)	595	165	(373)	803
	HSBC Private Banking Holdings (Suisse) S.A.	75	(55)	(14)	144	(233)	(111)	488
	CCF	573	249	(323)	647	3	(143)	787
Hong Kong	Hang Seng Bank	212	(135)	(62)	409	(191)	(305)	905
	The Hongkong and Shanghai Banking Corporation	517	83	(62)	496	(273)	(360)	1,129
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	138	6	(55)	187	46	(127)	268
	HSBC Bank Malaysia Berhad	17	4	(2)	15	(26)	(2)	43
	HSBC Bank Middle East	29	1	(11)	39	0	(39)	78
North America	HSBC USA Inc	35	(12)	(16)	63	(74)	(42)	179
	HSBC Bank Canada	31	8	(3)	26	(12)	(26)	64
	HSBC Markets Inc	20	(16)	(12)	48	17	(54)	85
	HSBC Mexico	214	287	(105)	32	32	—	—
South America	Brazilian operations	242	29	36	177	(38)	9	206
	HSBC Bank Argentina S.A. ...	2	6	(18)	14	(30)	5	39
Other operations		159	(52)	(117)	328	(160)	(222)	710
		2,921	285	(584)	3,220	(827)	(1,737)	5,784
Loans and advances to customers								
Europe	HSBC Bank plc	6,739	1,375	(501)	5,865	1,041	(1,232)	6,056
	HSBC Private Banking Holdings (Suisse) S.A.	79	14	(16)	81	8	(39)	112
	CCF	1,897	475	(235)	1,657	237	(285)	1,705
	Household	671	671	—	—	—	—	—
Hong Kong	Hang Seng Bank	938	12	(157)	1,083	9	(614)	1,688
	The Hongkong and Shanghai Banking Corporation	1,517	109	(305)	1,713	119	(730)	2,324
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	1,457	320	(147)	1,284	170	(237)	1,351
	HSBC Bank Malaysia Berhad	266	20	(5)	251	26	(17)	242
	HSBC Bank Middle East	352	34	(48)	366	51	(95)	410
North America	HSBC USA Inc.	2,256	88	(251)	2,419	182	(578)	2,815
	Household	9,631	9,631	—	—	—	—	—
	HSBC Bank Canada	982	169	(22)	835	60	(213)	988
	HSBC Markets Inc	24	(70)	(21)	115	45	(113)	183
South America	HSBC Mexico	862	915	(155)	102	102	—	—
	Brazilian operations	1,044	125	98	821	(105)	30	896
	HSBC Bank Argentina S.A. ...	103	(28)	(130)	261	(216)	106	371
Other operations		627	173	(217)	671	(13)	(61)	745
		29,445	13,240	(1,319)	17,524	2,038	(4,400)	19,886

		2003 compared with 2002			2002 compared with 2001			2001
		Increase/(decrease)			Increase/(decrease)			
Interest income (continued)		2003	Volume	Rate	2002	Volume	Rate	
		US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Trading securities								
Europe	HSBC Bank plc	945	(15)	(124)	1,084	354	(233)	963
	CCF	236	(76)	77	235	(109)	(164)	508
Hong Kong	Hang Seng Bank	15	(1)	(2)	18	(10)	(12)	40
	The Hongkong and Shanghai Banking Corporation	334	(20)	(78)	432	64	(177)	545
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	124	17	(5)	112	23	(24)	113
	HSBC Bank Malaysia Berhad	11	2	—	9	3	(1)	7
North America	HSBC USA Inc	102	(2)	(36)	140	18	(59)	181
	HSBC Bank Canada	17	—	(1)	18	11	(12)	19
	HSBC Markets Inc	303	(355)	(94)	752	(34)	(91)	877
	HSBC Mexico	261	309	(75)	27	27	—	—
South America	Brazilian operations	—	—	—	—	(5)	(3)	8
	HSBC Bank Argentina S.A.	1	—	1	—	(16)	—	16
Other operations		138	106	(52)	84	(14)	(37)	135
		2,487	(219)	(205)	2,911	269	(770)	3,412
Investment securities								
Europe	HSBC Bank plc	659	161	(125)	623	(106)	(122)	851
	HSBC Private Banking Holdings (Suisse) S.A.	397	(5)	(101)	503	165	(273)	611
	CCF	210	90	(21)	141	(20)	31	130
	Household	2	2	—	—	—	—	—
Hong Kong	Hang Seng Bank	460	206	(121)	375	112	(190)	453
	The Hongkong and Shanghai Banking Corporation	829	58	(184)	955	236	(454)	1,173
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	487	143	(104)	448	108	(135)	475
	HSBC Bank Malaysia Berhad	37	4	(1)	34	9	(3)	28
	HSBC Bank Middle East	24	4	(10)	30	—	(18)	48
North America	HSBC USA Inc	894	50	(83)	927	(93)	(212)	1,232
	Household	59	59	—	—	—	—	—
	HSBC Bank Canada	75	8	(11)	78	16	(37)	99
	HSBC Markets Inc	1	—	—	1	—	—	1
	HSBC Mexico	254	149	91	14	14	—	—
South America	Brazilian operations	250	(31)	(33)	314	(215)	67	462
	HSBC Bank Argentina S.A.	13	(12)	(9)	34	(91)	12	113
Other operations		345	43	(21)	323	107	(149)	365
		4,996	903	(707)	4,800	517	(1,758)	6,041

Financial Review (continued)

		2003 compared with 2002 Increase/(decrease)			2002 compared with 2001 Increase/(decrease)			
		2003 US\$m	Volume US\$m	Rate US\$m	2002 US\$m	Volume US\$m	Rate US\$m	2001 US\$m
Interest expense								
Deposits by banks								
Europe	HSBC Bank plc	404	19	9	376	142	(217)	451
	HSBC Private Banking Holdings (Suisse) S.A.	28	(3)	(29)	60	10	(16)	66
	CCF	398	(38)	(160)	596	(257)	(283)	1,136
	Household	31	31	—	—	—	—	—
Hong Kong	Hang Seng Bank	2	1	—	1	(6)	(2)	9
	The Hongkong and Shanghai Banking Corporation	28	5	(12)	35	5	(40)	70
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	81	(3)	(19)	103	(4)	(39)	146
	HSBC Bank Malaysia Berhad	3	—	—	3	3	(1)	1
	HSBC Bank Middle East	16	7	(6)	15	10	(9)	14
North America	HSBC USA Inc	39	(3)	(4)	46	14	(68)	100
	HSBC Bank Canada	11	(7)	(8)	26	10	(2)	18
	HSBC Markets Inc	22	(14)	(8)	44	(14)	(56)	114
	HSBC Mexico	59	43	5	11	11	—	—
South America	Brazilian operations	93	(19)	33	79	(44)	17	106
	HSBC Bank Argentina S.A. ...	14	5	(60)	69	(18)	58	29
Other operations		80	15	(57)	122	(30)	(47)	199
		<u>1,309</u>	<u>57</u>	<u>(334)</u>	<u>1,586</u>	<u>(5)</u>	<u>(868)</u>	<u>2,459</u>
Customer accounts								
Europe	HSBC Bank plc	2,741	633	(443)	2,551	595	(1,344)	3,300
	HSBC Private Banking Holdings (Suisse) S.A.	401	(33)	(115)	549	(16)	(372)	937
	CCF	606	280	(267)	593	(18)	(54)	665
	Household	28	28	—	—	—	—	—
Hong Kong	Hang Seng Bank	289	13	(172)	448	(53)	(1,001)	1,502
	The Hongkong and Shanghai Banking Corporation	379	32	(269)	616	29	(1,632)	2,219
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	719	140	(126)	705	166	(430)	969
	HSBC Bank Malaysia Berhad	142	14	(3)	131	(4)	(10)	145
	HSBC Bank Middle East	61	(5)	(40)	106	(5)	(139)	250
North America	HSBC USA Inc	553	(9)	(298)	860	(13)	(736)	1,609
	HSBC Bank Canada	326	39	30	257	31	(248)	474
	HSBC Markets Inc	52	(33)	(27)	112	(32)	(151)	295
	HSBC Mexico	408	519	(162)	51	51	—	—
South America	Brazilian operations	755	132	132	491	(149)	42	598
	HSBC Bank Argentina S.A.	57	6	(166)	217	(162)	153	226
Other operations		510	81	(224)	653	84	(493)	1,062
		<u>8,027</u>	<u>1,202</u>	<u>(1,515)</u>	<u>8,340</u>	<u>685</u>	<u>(6,596)</u>	<u>14,251</u>

		2003 compared with 2002 Increase/(decrease)			2002 compared with 2001 Increase/(decrease)			
Interest expense (continued)		2003 US\$m	Volume US\$m	Rate US\$m	2002 US\$m	Volume US\$m	Rate US\$m	2001 US\$m
CDs and other money market instruments								
Europe	HSBC Bank plc	151	132	(64)	83	43	(25)	65
	CCF	162	37	(76)	201	(33)	(28)	262
Hong Kong	Hang Seng Bank	36	(23)	(6)	65	5	(34)	94
	The Hongkong and Shanghai Banking Corporation	321	142	(79)	258	93	(77)	242
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	121	63	(11)	69	19	(17)	67
	HSBC Bank Malaysia Berhad	8	5	(4)	7	1	—	6
North America	HSBC USA Inc	26	(18)	(18)	62	12	(42)	92
	Household	60	60	—	—	—	—	—
	HSBC Bank Canada	84	25	3	56	(1)	(47)	104
	HSBC Mexico	169	258	(111)	22	22	—	—
South America	Brazilian operations	12	3	(5)	14	3	7	4
	HSBC Bank Argentina S.A.	—	(7)	—	7	(13)	(1)	21
Other operations		59	15	28	16	(18)	31	3
		<u>1,209</u>	<u>556</u>	<u>(207)</u>	<u>860</u>	<u>141</u>	<u>(241)</u>	<u>960</u>
Loan capital								
Europe	HSBC Bank plc	466	114	(111)	463	(190)	28	625
	CCF	187	73	(50)	164	56	(55)	163
	Household	111	111	—	—	—	—	—
Hong Kong	The Hongkong and Shanghai Banking Corporation	80	—	(3)	83	(1)	(15)	99
Rest of Asia- Pacific	The Hongkong and Shanghai Banking Corporation	17	9	(4)	12	13	(7)	6
North America	HSBC USA Inc.	178	(7)	(29)	214	(40)	(26)	280
	Household	1,779	1,779	—	—	—	—	—
	HSBC Bank Canada	66	18	(17)	65	(16)	1	80
	HSBC Mexico	13	18	(7)	2	2	—	—
South America	Brazilian operations	46	(11)	13	44	3	30	11
	HSBC Bank Argentina S.A.	30	7	(39)	62	7	31	24
Other operations		133	51	(85)	167	52	(149)	264
		<u>3,106</u>	<u>2,199</u>	<u>(369)</u>	<u>1,276</u>	<u>(86)</u>	<u>(190)</u>	<u>1,552</u>

Financial Review (continued)

Risk management

All HSBC's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The most important types of risk are credit risk (which includes cross-border risk), liquidity risk, market risk and operational risk. Market risk includes foreign exchange, interest rate and equity price risks.

HSBC's risk management policy is designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. HSBC continually modifies and enhances its risk management policies and systems to reflect changes in markets and products and in best practice risk management processes. Training, individual responsibility and accountability together with a disciplined, cautious and conventional culture of control lie at the heart of HSBC's management of risk.

The Group Management Board (formerly the Group Executive Committee), under authority delegated by the Board of Directors, formulates high level risk management policy. A separately constituted Risk Management Meeting monitors risk and receives reports which allow it to review the effectiveness of HSBC's risk management policies.

Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance, treasury and leasing activities. HSBC has dedicated standards, policies and procedures to control and monitor all such risks.

Within Group Head Office, a separate function, Group Credit and Risk, is mandated to provide high-level centralised management of credit risk for HSBC on a worldwide basis. Group Credit and Risk is headed by a Group General Manager who reports to the Group Chief Executive, and its responsibilities include the following:

- Formulating credit policies. These are embodied in HSBC standards with which all HSBC's operating companies are required to comply in formulating and recording in dedicated manuals their own more detailed credit policies and

procedures. All such credit policies and procedures are monitored by Group Credit and Risk.

- Establishing and maintaining HSBC's large credit exposure policy. This policy sets controls over the maximum level of HSBC's exposure to customers, customer groups and other risk concentrations in an approach which is designed to be more conservative than internationally accepted regulatory standards. All operating companies within HSBC are required to adopt this.
- Issuing lending guidelines to HSBC's operating companies on the Group's attitude towards, and appetite for lending to, *inter alia*, specified market sectors, industries and products. Each HSBC operating company and major business unit is required to base its own lending guidelines on HSBC's guidelines, regularly update them and make them available to all credit and marketing executives.
- Undertaking an independent review and objective assessment of risk. Group Credit and Risk assesses all commercial non-bank credit facilities over designated limits originated by all HSBC's operating companies, prior to the facilities being offered to customers. Operating companies may not proceed to confirm credit approval without this concurrence. Similarly, renewals and reviews of commercial non-bank facilities over designated levels are subject to the same process.
- Controlling exposures to banks and financial institutions. HSBC's credit and settlement risk limits to counterparties in the finance and government sectors are approved centrally to optimise the use of credit availability and avoid excessive risk concentration. A dedicated unit within Group Credit and Risk controls and manages these exposures on a global basis using centralised systems and automated processes.
- Controlling cross-border exposures. Country and cross-border risk is managed by a dedicated unit within Group Credit and Risk using centralised systems, through the imposition of country limits with sub-limits by maturity and type of business. Country limits are determined by taking into account economic and political factors, and applying local business knowledge.

Transactions with countries deemed to be high risk are considered on a case-by-case basis

- Controlling exposures to selected industries. Group Credit and Risk controls HSBC's exposure to the shipping and aviation industries, and closely monitors exposures to other industries such as telecommunications, insurance and real estate. Where necessary, restrictions are imposed on new business, or exposure within HSBC's operating companies is capped.
 - Maintaining and developing HSBC's facility grading process in order to categorise exposures into meaningful segments and facilitate focused management of the identified risks. HSBC's current grading structure contains a minimum of seven grades, the first three of which are applied to differing levels of satisfactory risk. Of the four unsatisfactory grades, grades 6 and 7 are non-performing loans. For banks, the grading structure involves ten tiers, six of which cover satisfactory risk. Grading methodology is based upon a wide range of financial analytics together with market data-based tools which are core inputs to the assessment of counterparty risk. Responsibility for setting facility grades rests with the final approving executive in each case. Facility grades are reviewed frequently and amendments, where necessary, are implemented promptly. A more sophisticated grading framework, based on default probability and loss estimates, is being piloted in the US and Canada. This new approach will allow a more granular analysis of risk and will be extended progressively to the Group's other major business units.
 - Reviewing the efficiency and effectiveness of operating companies' credit approval processes. Regular reports are provided to Group Credit and Risk on the credit quality of local portfolios and corrective action is taken where necessary.
 - Reporting to certain senior executives on aspects of the HSBC loan portfolio. These executives, as well as the Group Management Board (formerly called the Group Executive Committee), Group Audit Committee and the Board receive a variety of regular reports covering:
 - risk concentrations and exposure to industry sectors;
 - large customer group exposures;
 - emerging market debt and provisioning;
 - large non-performing accounts and provisions;
 - specific segments of the portfolio: real estate, telecommunications, insurance, aviation and shipping, as well as *ad hoc* reviews;
 - country limits and cross-border exposures; and
 - causes of unexpected loss and lessons learned.
 - Managing and directing credit-related systems initiatives. HSBC has a centralised database of large corporate, sovereign and bank facilities and is constructing a database comprising all Group lending assets. A systems-based credit application process for bank lending is operational in all jurisdictions and a standard electronic corporate credit application system is deployed in most of the Group's major businesses. Coverage will be further extended in 2004.
 - Providing advice and guidance to HSBC's operating companies in order to promote best practice throughout the Group on credit-related issues such as:
 - regulatory matters;
 - environmental and social responsibility policies;
 - scoring and portfolio provisioning;
 - new products;
 - training courses; and
 - credit-related reporting.
 - Acting as the primary interface for credit-related issues on behalf of HSBC Holdings with external parties including the Bank of England, the UK Financial Services Authority ('FSA'), rating agencies, corporate analysts, trade associations and counterparts in the world's major banks and non-bank financial institutions.
- Responsibility for the quality and performance of the credit portfolios in each of the Group's operating companies rests with local management.

Financial Review (continued)

Each operating company is required to implement credit policies, procedures and lending guidelines which conform to HSBC Group standards, with credit approval authorities delegated from the Board of Directors of HSBC Holdings to the relevant Chief Executive Officer. In each major subsidiary, management includes a Chief Credit Officer who, in most cases, reports to his local Chief Executive Officer on credit-related issues. In the case of Household, the Chief Credit Officer reports to the Chief Operating Officer of that business, in line with historic practice. All Chief Credit Officers have a functional reporting line to the Group General Manager, Group Credit and Risk.

Each operating company is responsible for all assets in its portfolio, including those subject to central approval by Group Credit and Risk, and for managing its own risk concentrations on market sector, geographical and product bases. Local systems are in place throughout the Group to enable operating companies to control and monitor exposures by customer and counterparty.

Special attention is paid to problem loans. When appropriate, specialist units are established by HSBC's operating companies to provide customers with intensive management and control support in order to help them avoid default wherever possible and maximise recoveries. Regular audits of operating companies' credit processes are undertaken by HSBC's Internal Audit function. Audits include consideration of the completeness and adequacy of credit manuals and lending guidelines, an in-depth analysis of a representative sample of accounts, an overview of homogenous portfolios of similar assets to assess the quality of the loan book and other exposures, and adherence to Group standards and policies in the extension of credit facilities. Individual accounts are reviewed to ensure that facility grades are appropriate, that credit and collection procedures have been properly followed and that, where an account or portfolio evidences deterioration, adequate provisions are raised in accordance with the Group's established processes. Internal Audit will discuss with management facility gradings they consider to be inappropriate, and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

Provisions for bad and doubtful debts

It is HSBC policy that each operating company makes provision for bad and doubtful debts promptly

when required and on a consistent basis in accordance with established Group guidelines.

HSBC's grading process for credit facilities extended by members of the Group is designed to highlight exposures requiring greater management attention based on a higher probability of default and potential loss. Management particularly focuses on the appropriateness of grades assigned to facilities to those borrowers and portfolio segments classified below satisfactory grades. Amendments, where necessary, are required to be undertaken promptly. Management also regularly performs an assessment of the adequacy of the established provisions for bad and doubtful debts by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics against historical trends and undertaking an assessment of current economic conditions.

There are two types of provision, specific and general, as discussed below.

Specific provisions

Specific provisions represent the quantification of actual and inherent losses from homogenous portfolios of assets and individually identified accounts. Specific provisions are deducted from loans and advances in the balance sheet. Following the acquisition of Household, the majority of specific provisions are now determined on a portfolio basis.

Portfolios

Where homogenous groups of assets are reviewed on a portfolio basis (e.g. credit cards, other unsecured consumer lending, motor vehicle financing and residential mortgage loans), two alternative methods are used to calculate specific provisions:

- When appropriate empirical information is available, the Group utilises roll rate methodology (a statistical analysis of historical trends of the probability of default and amount of consequential loss, assessed at each time period for which payments are overdue), other historical data and an evaluation of current economic conditions, to calculate an appropriate level of specific provision based on inherent loss. Additionally, in certain highly developed markets, sophisticated models also take into account behavioural and account management trends such as bankruptcy and restructuring statistics. Roll rates are regularly benchmarked

against actual outcomes to ensure they remain appropriate.

- In other cases, when information is insufficient or not sufficiently reliable to adopt a roll rate methodology, the Group adopts a formulaic approach which allocates progressively higher loss rates in line with the period of time for which a customer's loan is overdue.

The portfolio basis is applied to accounts in Household's consumer portfolios and, in the rest of HSBC, to the following portfolios:

- small business accounts (typically less than US\$15,000) in certain countries;
- residential mortgages less than 90 days overdue; and
- credit cards and other unsecured consumer lending products.

These portfolio provisions are generally reassessed monthly and charges for new provisions, or releases of existing provisions, are calculated for each separately identified portfolio.

The Group's intention is to extend the use of the roll rate and model methodologies to all homogenous portfolios of assets for calculating specific provisions as information becomes available.

Individually assessed accounts

Specific provisions on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. This procedure is applied to all accounts that do not qualify for, or are not subject to, a portfolio based approach (typically those with facilities of more than US\$15,000 and, in some jurisdictions, all house mortgage loans and motor vehicle finance facilities). In determining such provisions on individually assessed accounts, the following factors are considered:

- the Group's aggregate exposure to the customer (including contingent liabilities);
- the viability of the customer's business model and the capability of management to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the likely dividend available on liquidation or bankruptcy;

- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the amount and timing of expected receipts and recoveries;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain the relevant foreign currency if loans are not in local currency.

Group policy requires a review of the level of specific provisions on individual facilities above materiality guidelines at least half-yearly, or more regularly where individual circumstances require. This will normally include a review of collateral held (including reconfirmation of its enforceability) and an assessment of actual and anticipated receipts. For significant commercial and corporate debts, specialised loan 'work-out' teams with experience in insolvency and specific markets are used. In management's view, utilising this expertise enables likely losses on significant individual exposures to be assessed more accurately. Releases on individually calculated specific provisions are recognised whenever the Group has reasonable evidence that the established estimate of loss has been reduced.

Cross-border exposures

Specific provisions are established in respect of cross-border exposures to countries assessed by management to be vulnerable to foreign currency payment restrictions. This assessment includes analysis of both economic and political factors. Economic factors include the level of external indebtedness, the debt service burden and access to external sources of funds to meet the debtor country's financing requirements. Political factors taken into account include assessment of the stability of the country and its government, potential threats to security and the quality and independence of the legal system.

Financial Review (continued)

Provisions are applied to all qualifying exposures within these countries unless these exposures:

- are fully performing and of less than one year's maturity;
- are mitigated by acceptable security cover held outside the country concerned; or
- are represented by securities held for trading purposes for which a liquid and active market exists, and which are marked to market daily.

General provisions

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be individually identified as such until some time in the future. HSBC requires each operating company to maintain a general provision which is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of a specific provision against that loss; and
- management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The estimated period between a loss occurring and its identification (as evidenced by the establishment of a specific provision for this loss) is determined by local management for each identified portfolio. In general, the periods used vary between four and twelve months.

In normal circumstances, historical experience is the most objective and accurate framework used to assess inherent loss within each portfolio. Historical loss experience is generally benchmarked against the weighted average annual rate of provisions over a five-year period.

In certain circumstances, such as in Argentina in 2001, economic conditions are such that it is clear that historical loss experience provides insufficient evidence of the inherent loss in a given portfolio. In

such circumstances, management uses its judgement, supported by relevant experience from similar situations, to determine an appropriate general provision.

The basis used to establish the general provision within each reporting entity is documented and reviewed by senior Group credit management for conformity with Group policy.

Suspended and non-accrual interest

For individually assessed accounts, loans are designated as non-performing as soon as management has doubts as to the ultimate collectability of principal or interest, or when contractual payments of principal or interest are 90 days overdue. When a loan is designated as non-performing, interest is not normally credited to the profit and loss account and either interest accruals will cease ('non-accrual loans') or interest will be credited to an interest suspense account in the balance sheet which is netted against the relevant loan ('suspended interest').

Within portfolios of low value, high volume, homogenous loans, interest will normally be suspended on facilities 90 days or more overdue. In certain operating subsidiaries, interest income on credit cards may continue to be included in earnings after the account is 90 days overdue, provided that a suitable provision is raised against the portion of accrued interest which is considered to be irrecoverable.

The designation of a loan as non-performing and the suspension of interest may be deferred for up to 12 months in either of the following situations:

- cash collateral is held covering the total of principal and interest due and the right to set-off is legally sound; or
- the value of any net realisable tangible security is considered more than sufficient to cover the full repayment of all principal and interest due and credit approval has been given to the rolling-up or capitalisation of interest payments.

On receipt of cash (other than from the realisation of security), the overall risk is re-evaluated and, if appropriate, suspended or non-accrual interest is recovered and taken to the profit and loss account. Amounts received from the realisation of security are applied to the repayment of outstanding indebtedness, with any surplus used to

recover specific provisions and then suspended interest.

Charge-offs

Loans (and the related provisions) are normally charged off, either partially or in full, when there is no realistic prospect of recovery of these amounts and when the proceeds from the realisation of security have been received. Unsecured consumer facilities are charged off between 150 and 210 days overdue. In the case of Household, this period is generally extended to 300 days overdue (270 days for secured products) and collections can continue for up to 360 days post default where it is expected to improve recovery rates. In the case of bankruptcy, charge-off can occur earlier.

US banks typically write off problem lending more quickly than is the practice in the UK. This approach means that HSBC's reported level of credit risk elements and associated provisions are likely to be higher than for comparable US banks.

Restructuring of loans

Restructuring activity is designed to maximise cash recovery on accounts which are overdue, by slowing down the formal steps in collection management to allow qualifying customers to repair or renegotiate satisfactory maintenance of their accounts. This will normally involve resetting an overdue consumer account to current status following an agreed restructuring. Restructuring is typically utilised to assist customers who have suffered from a lifestyle event such as redundancy, divorce or illness, to manage their obligations while they adjust to their new circumstances. Restructuring policies and practices are based on indicators, or criteria, which, in the judgement of local management, evidence continued payment probability. These policies are continually reviewed and their application varies depending upon the nature of the market, the product and the availability of empirically based data. Where empirical evidence indicates an increased propensity to default on restructured accounts, and roll rate methodologies are deployed in the calculation of

provisions, the provisioning methodology reflects the increased propensity of such accounts to default.

Restructuring activity is used most commonly within consumer finance portfolios. The largest concentration is domiciled in the US in Household. The majority of restructured amounts related to secured lending.

In addition to restructuring, HSBC's consumer lending businesses, principally Household, use other account management techniques on a more limited basis, such as extended payment arrangements, approved external debt management plans, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances. When using such techniques, accounts may be treated as current, although if payment difficulties are subsequently experienced, they will be redesignated as delinquent. At 31 December 2003, the total value of accounts which have been either restructured or subject to other account management techniques was US\$18 billion or some 15 per cent of the Household loan book.

Assets acquired

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. The asset acquired is recorded at the carrying value of the advance disposed of at the date of the exchange and subsequent provisions are based on any further deterioration in value.

Loan portfolio

Loans and advances to customers are well spread across the various industrial sectors, as well as geographically.

At constant exchange rates, loans and advances to customers (excluding the finance sector and settlement accounts) grew by US\$145 billion, or 41 per cent, during 2003 of which US\$108 billion, or 31 per cent, related to the acquisition of Household. As a result, personal lending comprised 56 per cent of HSBC's loan portfolio and over 90 per cent of the growth in loans in 2003 (excluding the financial sector) related to personal and consumer lending.

Financial Review (continued)

Gross loans and advances to customers

	2002 US\$m	On acquisition of Household US\$m	Constant currency effect US\$m	Under- lying change US\$m	2003 US\$m
Personal					
Residential mortgages	96,984	39,293	6,841	22,346	165,464
Hong Kong Government Home Ownership Scheme	7,255	–	33	(998)	6,290
Other personal	48,562	68,927	3,871	12,785	134,145
Total personal	152,801	108,220	10,745	34,133	305,899
Corporate and commercial					
Commercial, industrial and international trade..	79,015	–	7,907	(1,254)	85,668
Commercial real estate	29,267	–	2,447	3,374	35,088
Other property-related	15,347	–	823	970	17,140
Government	8,953	–	193	444	9,590
Other commercial ¹	40,674	157	3,917	(718)	44,030
Total corporate and commercial	173,256	157	15,287	2,816	191,516
Financial					
Non-bank financial institutions	27,487	–	2,006	7,598	37,091
Settlement accounts	8,385	–	376	(167)	8,594
Total financial	35,872	–	2,382	7,431	45,685
Total gross loans and advances to customers	361,929	108,377	28,414	44,380	543,100

1 Other commercial includes advances in respect of agriculture, transport, energy and utilities.

The commentary below is on a constant currency basis and excludes the impact of the acquisition of Household except where stated.

Residential mortgages increased by US\$22.3 billion, of which US\$7 billion arose in Household post-acquisition. Including Household, mortgages comprised 31 per cent of total gross loans to customers at 31 December 2003. Residential mortgages in Europe increased by US\$9 billion, of which US\$8 billion arose in UK Banking, reflecting the success of a number of marketing initiatives, including competitive pricing and First Direct's Offset mortgage product, as well as the continuing high level of mortgage refinancing activity in the market. Residential mortgage lending in Hong Kong declined as the property market weakened and demand fell, although there were tentative signs of recovery towards the end of the year. The suspension of the sale of new homes under the Hong Kong Government Home Ownership Scheme in 2001 resulted in lower outstanding balances on these loans.

In the rest of Asia-Pacific, residential mortgages grew by US\$4 billion, with strong growth in Korea, Singapore, Australia and New Zealand, the latter from the acquisition of AMP Bank's mortgage business.

Other personal lending increased by US\$12.8 billion, or 24 per cent, of which US\$6 billion arose in Household post-acquisition. Including Household, other personal lending increased to 25 per cent of total gross loans to customers at 31 December 2003. There was strong growth in the UK, with credit card balances increasing by 18 per cent. European Private Banking customers increased other personal lending by 25 per cent taking advantage of interest rates to finance higher returning securities. Across the rest of Asia-Pacific loan increase was about 18 per cent. In South America other personal lending nearly doubled primarily due to the acquisition of Losango. In Hong Kong, the improving economic conditions saw growth of 5 per cent in other personal lending which rose to US\$7,420 million.

Loans and advances to the corporate and commercial lending (excluding settlement accounts) grew by less than 2 per cent reflecting subdued corporate loan demand.

The following tables analyse loans by industry sector and by the location of the principal operations of the lending subsidiary or, in the case of The Hongkong and Shanghai Banking Corporation, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA operations, by the location of the lending branch.

Customer loans and advances by industry sector

At 31 December 2003							
	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	North America US\$m	South America US\$m	Gross loans and advances to customers US\$m	Gross loans by customer type as a % of total gross loans %
Personal							
Residential mortgages	51,721	23,664	12,101	77,754	224	165,464	30.3
Hong Kong Government Home Ownership Scheme	—	6,290	—	—	—	6,290	1.2
Other personal	42,041	7,420	7,135	75,173	2,376	134,145	24.7
Total personal	93,762	37,374	19,236	152,927	2,600	305,899	56.2
Corporate and commercial							
Commercial, industrial and international trade	49,468	10,966	14,892	8,907	1,435	85,668	15.8
Commercial real estate	15,517	8,548	3,149	7,785	89	35,088	6.5
Other property-related	5,416	5,075	2,597	3,994	58	17,140	3.2
Government	2,462	927	1,450	4,104	647	9,590	1.8
Other commercial ¹	24,239	6,754	5,735	6,619	683	44,030	8.1
Total corporate and commercial	97,102	32,270	27,823	31,409	2,912	191,516	35.4
Financial							
Non-bank financial institutions ..	21,226	4,921	2,027	8,839	78	37,091	6.8
Settlement accounts	3,068	556	188	4,767	15	8,594	1.6
Total financial	24,294	5,477	2,215	13,606	93	45,685	8.4
Total gross loans and advances to customers ²	215,158	75,121	49,274	197,942	5,605	543,100	100.0
Percentage of Group loans and advances by geographical region	39.7%	13.8%	9.1%	36.4%	1.0%	100.0%	
Non-performing loans ³	5,701	1,671	1,538	5,444 ⁴	696	15,050	
Non-performing loans as a percentage of gross loans and advances to customers ³	2.6%	2.2%	3.1%	2.8%	12.4%	2.8%	
Specific provisions outstanding against loans and advances ...	3,554	629	981	5,184 ⁴	530	10,878	
Specific provisions outstanding as a percentage of non- performing loans ³	62.3%	37.6%	63.8%	95.2% ⁴	76.1%	72.3%	

¹ Other commercial includes advances in respect of agriculture, transport, energy and utilities.

² Included within this total is credit card lending of US\$48,634 million.

³ Net of suspended interest.

⁴ Includes non-performing loans of US\$4,380 million and specific provisions of US\$4,448 million in Household; excluding Household specific provisions outstanding as a percentage of non-performing loans was 69.2 per cent.

Included in gross loans and advances to customers are the following numbers in respect of Household, 93 per cent of which relate to North America:

	2003 US\$m
Residential mortgages	46,057
Motor vehicle finance	8,868
MasterCard/Visa credit cards	21,207
Private label cards	15,413
Other unsecured personal lending	30,130
Corporate and commercial lending	101
Total	121,776

Financial Review (continued)

Customer loans and advances by industry sector (continued)

	At 31 December 2002						Gross loans by customer type as a % of total gross loans %
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Gross loans and advances to customers US\$m	
Personal							
Residential mortgages	38,719	23,839	7,507	26,666	253	96,984	26.9
Hong Kong Government Home Ownership Scheme	–	7,255	–	–	–	7,255	2.0
Other personal	26,748	7,066	5,900	7,836	1,012	48,562	13.4
Total personal	65,467	38,160	13,407	34,502	1,265	152,801	42.3
Corporate and commercial							
Commercial, industrial and international trade	44,424	10,173	12,582	10,773	1,063	79,015	21.8
Commercial real estate	11,887	8,336	2,701	6,297	46	29,267	8.1
Other property-related	3,970	4,805	2,031	4,515	26	15,347	4.2
Government	2,164	719	933	4,575	562	8,953	2.5
Other commercial ¹	22,712	6,612	5,950	4,835	565	40,674	11.2
Total corporate and commercial ..	85,157	30,645	24,197	30,995	2,262	173,256	47.8
Financial							
Non-bank financial institutions	15,221	2,055	931	9,231	49	27,487	7.6
Settlement accounts	2,622	347	192	5,224	–	8,385	2.3
Total financial	17,843	2,402	1,123	14,455	49	35,872	9.9
Total gross loans and advances to customers²	168,467	71,207	38,727	79,952	3,576	361,929	100.0
Percentage of Group loans and advances by geographical region	46.5%	19.7%	10.7%	22.1%	1.0%	100.0%	
Non-performing loans³	4,495	1,724	2,055	1,773	476	10,523	
Non-performing loans as a percentage of gross loans and advances to customers³	2.7%	2.4%	5.3%	2.2%	13.3%	2.9%	
Specific provisions outstanding against loans and advances	2,774	688	1,321	1,482	341	6,606	
Specific provisions outstanding as a percentage of non- performing loans³	61.7%	39.9%	64.3%	83.6%	71.6%	62.8%	

¹ Other commercial includes advances in respect of agriculture, transport, energy and utilities.

² Included within this total is credit card lending of US\$9,950 million.

³ Net of suspended interest.

At 31 December 2001

	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Gross loans and advances to customers US\$m	Gross loans by customer type as a % of total gross loans %
Personal							
Residential mortgages	27,282	23,125	5,134	22,126	548	78,215	24.7
Hong Kong Government Home Ownership Scheme	—	8,123	—	—	—	8,123	2.6
Other personal	21,065	6,227	4,616	6,273	1,280	39,461	12.3
Total personal	48,347	37,475	9,750	28,399	1,828	125,799	39.6
Corporate and commercial							
Commercial, industrial and international trade	38,476	9,662	11,226	9,018	1,720	70,102	22.1
Commercial real estate	9,475	8,474	2,395	5,877	77	26,298	8.3
Other property-related	3,630	4,710	2,169	4,011	69	14,589	4.6
Government	2,393	543	900	728	775	5,339	1.7
Other commercial ¹	20,510	6,349	5,457	4,230	617	37,163	11.7
Total corporate and commercial ..	74,484	29,738	22,147	23,864	3,258	153,491	48.4
Financial							
Non-bank financial institutions	11,329	1,546	752	12,572	118	26,317	8.3
Settlement accounts	2,361	223	189	8,984	4	11,761	3.7
Total financial	13,690	1,769	941	21,556	122	38,078	12.0
Total gross loans and advances to customers ²	136,521	68,982	32,838	73,819	5,208	317,368	100.0
Percentage of Group loans and advances by geographical region	43.0%	21.7%	10.3%	23.3%	1.7%	100.0%	
Non-performing loans ³	3,682	2,028	2,723	672	544	9,649	
Non-performing loans as a percentage of gross loans and advances to customers ³	2.7%	2.9%	8.3%	0.9%	10.4%	3.0%	
Specific provisions outstanding against loans and advances	2,204	856	1,786	289	365	5,500	
Specific provisions outstanding as a percentage of non- performing loans ³	59.8%	42.2%	65.6%	43.0%	67.1%	57.0%	

1 Other commercial includes advances in respect of agriculture, transport, energy and utilities.

2 Included within this total is credit card lending of US\$8,289 million.

3 Net of suspended interest.

Financial Review (continued)

Customer loans and advances by industry sector (continued)

	At 31 December 2000						Gross loans by customer type as a % of total gross loans %
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Gross loans and advances to customers US\$m	
Personal							
Residential mortgages	24,048	23,121	3,723	19,931	809	71,632	24.0
Hong Kong Government Home Ownership Scheme	—	7,353	—	—	—	7,353	2.5
Other personal	20,537	4,923	4,110	6,847	1,364	37,781	12.5
Total personal	44,585	35,397	7,833	26,778	2,173	116,766	39.0
Corporate and commercial							
Commercial, industrial and international trade	38,012	9,584	11,583	9,274	2,803	71,256	23.9
Commercial real estate	10,053	8,293	2,749	6,915	77	28,087	9.4
Other property-related	3,121	3,850	1,815	4,072	156	13,014	4.4
Government	2,572	130	574	715	50	4,041	1.4
Other commercial ¹	19,570	7,459	5,406	3,753	937	37,125	12.4
Total corporate and commercial ..	73,328	29,316	22,127	24,729	4,023	153,523	51.5
Financial							
Non-bank financial institutions	10,374	1,664	629	8,629	152	21,448	7.2
Settlement accounts	3,946	142	361	2,464	41	6,954	2.3
Total financial	14,320	1,806	990	11,093	193	28,402	9.5
Total gross loans and advances to customers ²	132,233	66,519	30,950	62,600	6,389	298,691	100.0
Percentage of Group loans and advances by geographical region	44.3%	22.3%	10.4%	20.9%	2.1%	100.0%	
Non-performing loans ³	3,376	2,521	3,081	684	710	10,372	
Non-performing loans as a percentage of gross loans and advances to customers ³	2.6%	3.8%	9.9%	1.1%	11.1%	3.5%	
Specific provisions outstanding against loans and advances	2,135	1,241	1,929	278	482	6,065	
Specific provisions outstanding as a percentage of non- performing loans ³	63.2%	49.2%	62.6%	40.6%	67.9%	58.5%	

1 Other commercial includes advances in respect of agriculture, transport, energy and utilities.

2 Included within this total is credit card lending of US\$7,604 million.

3 Net of suspended interest.

At 31 December 1999

	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Gross loans and advances to customers US\$m	Gross loans by customer type as a % of total gross loans %
Personal							
Residential mortgages	22,047	23,614	3,028	16,962	746	66,397	25.2
Hong Kong Government Home Ownership Scheme	—	6,565	—	—	—	6,565	2.5
Other personal	16,668	4,409	3,979	5,864	1,017	31,937	12.2
Total personal	38,715	34,588	7,007	22,826	1,763	104,899	39.9
Corporate and commercial							
Commercial, industrial and international trade	27,380	9,762	12,250	9,129	2,255	60,776	23.2
Commercial real estate	6,519	8,987	3,353	5,709	255	24,823	9.5
Other property-related	2,020	2,093	2,033	4,114	151	10,411	4.0
Government	3,405	140	749	730	149	5,173	2.0
Other commercial ¹	17,982	6,874	5,249	4,481	852	35,438	13.5
Total corporate and commercial ..	57,306	27,856	23,634	24,163	3,662	136,621	52.2
Financial							
Non-bank financial institutions	7,227	2,262	984	6,402	187	17,062	6.5
Settlement accounts	2,827	114	200	619	9	3,769	1.4
Total financial	10,054	2,376	1,184	7,021	196	20,831	7.9
Total gross loans and advances to customers ²	106,075	64,820	31,825	54,010	5,621	262,351	100.0
Percentage of Group loans and advances by geographical region	40.5%	24.7%	12.1%	20.6%	2.1%	100.0%	
Non-performing loans ³	2,679	3,133	3,535	599	427	10,373	
Non-performing loans as a percentage of gross loans and advances to customers ³	2.5%	4.8%	11.1%	1.1%	7.6%	3.9%	
Specific provisions outstanding against loans and advances	1,411	1,428	2,221	261	371	5,692	
Specific provisions outstanding as a percentage of non- performing loans ³	52.7%	45.6%	62.8%	43.6%	86.9%	54.9%	

¹ Other commercial includes advances in respect of agriculture, transport, energy and utilities.

² Included within this total is credit card lending of US\$6,927 million.

³ Net of suspended interest.

Financial Review (continued)

Customer loans and advances by principal area within rest of Asia-Pacific and South America

At 31 December 2003					
	Residential mortgages US\$m	Other personal US\$m	Property- related US\$m	Commercial, international trade and other US\$m	Total US\$m
Loans and advances to customers (gross)					
Australia and New Zealand	5,436 ¹	497	1,835	3,460	11,228
India	424	305	10	1,329	2,068
Indonesia	13	135	20	670	838
Japan	13	75	613	2,731	3,432
Mainland China	78	6	614	1,887	2,585
Malaysia	1,837	518	311	2,591	5,257
Middle East	61	1,660	923	4,726	7,370
Singapore	1,521	2,420	1,142	2,219	7,302
South Korea	1,430	81	—	847	2,358
Taiwan	1,073	506	—	852	2,431
Thailand	32	129	82	743	986
Other	183	803	196	2,237	3,419
Total of rest of Asia-Pacific	12,101	7,135	5,746	24,292	49,274
Argentina	47	62	16	975 ²	1,100
Brazil	176	2,313	122	1,715	4,326 ³
Other	1	1	9	168	179
Total of South America	224	2,376	147	2,858	5,605

1 The acquisition of the AMP Bank mortgage business added US\$1,246 million during the year.

2 Includes US\$644 million of loan exposures to the Argentine Government received in exchange for debt securities.

3 The acquisitions of Losango and Lloyds TSB's Brazilian businesses and assets added US\$855 million and US\$133 million respectively to other personal lending and to corporate lending in 2003.

At 31 December 2002					
	Residential mortgages US\$m	Other personal US\$m	Property- related US\$m	Commercial, international trade and other US\$m	Total US\$m
Loans and advances to customers (gross)					
Australia and New Zealand	2,742	290	1,187	2,821	7,040
India	216	288	18	1,236	1,758
Indonesia	9	91	27	581	708
Japan	12	67	592	2,010	2,681
Mainland China	29	4	298	1,410	1,741
Malaysia	1,558	453	333	2,521	4,865
Middle East	36	1,544	1,086	3,518	6,184
Singapore	960	2,023	925	2,296	6,204
South Korea	800	67	—	855	1,722
Taiwan	918	420	1	909	2,248
Thailand	26	80	26	705	837
Other	201	573	239	1,726	2,739
Total of rest of Asia-Pacific	7,507	5,900	4,732	20,588	38,727
Argentina	94	31	15	940 ¹	1,080
Brazil	158	979	48	1,162	2,347
Other	1	2	9	137	149
Total of South America	253	1,012	72	2,239	3,576

1 Includes US\$558 million of loan exposures to the Argentine Government received in exchange for debt securities.

Analysis of loans and advances to banks by geographical region

	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	North America US\$m	South America US\$m	Gross loans and advances to banks US\$m	Provisions for bad and doubtful debts US\$m
31 December 2003	51,806	38,639	12,948	11,885	1,922	117,200	(24)
Suspended interest						(3)	
Total						<u>117,197</u>	
31 December 2002	39,398	33,359	10,708	10,391	1,665	95,521	(23)
Suspended interest						(2)	
Total						<u>95,519</u>	
31 December 2001	40,665	42,516	11,253	7,979	2,252	104,665	(22)
Suspended interest						(2)	
Total						<u>104,663</u>	
31 December 2000	45,072	57,154	11,197	9,441	3,200	126,064	(30)
Suspended interest						(2)	
Total						<u>126,062</u>	
31 December 1999	29,395	53,778	10,024	4,568	2,337	100,102	(24)
Suspended interest						(1)	
Total						<u>100,101</u>	

Provisions against total loans and advances

	Year ended 31 December 2003		
	Specific US\$m	General US\$m	Total US\$m
At 1 January 2003	6,629	2,511	9,140
Amounts written off	(7,456)	—	(7,456)
Recoveries of advances written off in previous years	610	—	610
Charge/(credit) to profit and loss account	6,214	(121)	6,093
Acquisitions	4,269	500	4,769
Exchange and other movements	636	(77)	559
At 31 December 2003	<u>10,902</u>	<u>2,813</u>	<u>13,715</u>
— Household	4,588	613	5,201
— Rest of HSBC	<u>6,314</u>	<u>2,200</u>	<u>8,514</u>

Provisions against loans and advances to customers

	2003			2002	2001	2000	1999
	Total %	Household %	Rest of HSBC %	%	%	%	%
Total provisions to gross lending¹							
Specific provisions	2.11	3.77	1.59	1.94	1.90	2.17	2.28
General provisions							
Additional general provisions held against Argentine risk	—	—	—	0.04	0.21	—	—
Other	0.54	0.50	0.56	0.70	0.71	0.75	0.92
Total provisions	<u>2.65</u>	<u>4.27</u>	<u>2.15</u>	<u>2.68</u>	<u>2.82</u>	<u>2.92</u>	<u>3.20</u>

¹ Net of suspended interest, reverse repo transactions and settlement accounts.

Financial Review (continued)

The following tables show details of the movements in HSBC's provisions for bad and doubtful debts by location of lending office for each of the past five

years. A discussion of the material movements in the charge for provisions by region follows these tables.

Year ended 31 December 2003						
	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Provisions at 1 January	3,668	1,143	1,496	2,356	477	9,140
Amounts written off:						
Commercial, industrial and international trade	(338)	(71)	(201)	(337)	(69)	(1,016)
Real estate	(31)	(12)	(18)	(113)	(5)	(179)
Non-bank financial institutions	(3)	(13)	(21)	(30)	—	(67)
Governments	(1)	—	(1)	—	—	(2)
Other commercial	(54)	(65)	(42)	(104)	(30)	(295)
Residential mortgages	(4)	(121)	(16)	(529)	(5)	(675)
Other personal	(471)	(302)	(146)	(4,225)	(78)	(5,222)
Total amounts written off	(902)	(584)	(445)	(5,338)	(187)	(7,456)
Recoveries of amounts written off in previous years:						
Commercial, industrial and international trade	25	16	18	20	3	82
Real estate	3	—	4	2	—	9
Non-bank financial institutions	2	—	5	4	—	11
Governments	—	—	—	—	—	—
Other commercial	49	4	11	10	7	81
Residential mortgages	1	6	1	4	1	13
Other personal	62	16	35	295	6	414
Total recoveries	142	42	74	335	17	610
Net charge to profit and loss account ¹ :						
Banks	(6)	—	3	—	—	(3)
Commercial, industrial and international trade	286	(3)	(45)	78	60	376
Real estate	15	(18)	(8)	(1)	1	(11)
Non-bank financial institutions	(1)	1	(17)	(5)	(1)	(23)
Governments	—	—	1	—	—	1
Other commercial	216	78	(4)	55	(6)	339
Residential mortgages	—	102	23	421	6	552
Other personal	482	271	116	3,992	122	4,983
General Provisions	(118)	(31)	16	136	(124)	(121)
Total charge	874	400	85	4,676	58	6,093
Foreign exchange and other movements ²	653	54	(29)	4,432	218	5,328
Provisions at 31 December	4,435	1,055	1,181	6,461	583	13,715
Provisions against banks:						
Specific provisions	20	—	4	—	—	24
Provisions against customers:						
Specific provisions	3,554	629	981	5,184	530	10,878
General provisions ³	861	426	196	1,277	53	2,813
Provisions at 31 December	4,435	1,055	1,181	6,461	583	13,715
Provisions against customers as a percentage of loans and advances to customers:						
Specific provisions	1.65	0.84	1.99	2.62	9.46	2.00
General provisions	0.40	0.57	0.40	0.65	0.95	0.52
Total	2.05	1.41	2.39	3.27	10.41	2.52

1 See table below 'Net charge to the profit and loss account for bad and doubtful debts'.

2 Other movements include amounts of US\$129 million in Europe and US\$4,524 million in North America transferred in on the acquisition of Household, and of US\$116 million in South America transferred in on the acquisition of Lloyds TSB Group's Brazilian businesses and assets.

3 General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.

Year ended 31 December 2002						
	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Provisions at 1 January	3,067	1,408	1,952	723	1,033	8,183
Amounts written off:						
Banks	—	—	—	—	(1)	(1)
Commercial, industrial and international trade	(161)	(59)	(255)	(92)	(28)	(595)
Real estate	(31)	(18)	(88)	(9)	(4)	(150)
Non-bank financial institutions	(4)	(11)	(2)	(12)	(2)	(31)
Governments	(1)	—	—	—	—	(1)
Other commercial	(54)	(11)	(116)	(149)	(22)	(352)
Residential mortgages	(2)	(109)	(7)	(2)	(10)	(130)
Other personal	(199)	(328)	(132)	(96)	(96)	(851)
Total amounts written off	(452)	(536)	(600)	(360)	(163)	(2,111)
Recoveries of amounts written off in previous years:						
Banks	—	—	—	—	—	—
Commercial, industrial and international trade	15	1	4	6	2	28
Real estate	6	—	2	6	—	14
Non-bank financial institutions	—	—	1	—	—	1
Governments	—	—	—	—	—	—
Other commercial	7	3	14	9	—	33
Residential mortgages	1	7	—	—	—	8
Other personal	29	14	31	14	8	96
Total recoveries	58	25	52	35	10	180
Net charge to profit and loss account ¹ :						
Banks	(2)	—	—	—	—	(2)
Commercial, industrial and international trade	345	(22)	38	89	30	480
Real estate	(4)	9	(11)	5	2	1
Non-bank financial institutions	3	(14)	(29)	18	11	(11)
Governments	(1)	—	—	(5)	4	(2)
Other commercial	50	(22)	(22)	116	177	299
Residential mortgages	—	70	11	(4)	10	87
Other personal	243	322	93	66	96	820
General Provisions	(65)	(97)	9	15	(213)	(351)
Total charge	569	246	89	300	117	1,321
Foreign exchange and other movements ²	426	—	3	1,658	(520)	1,567
Provisions at 31 December	3,668	1,143	1,496	2,356	477	9,140
Provisions against banks:						
Specific provisions	23	—	—	—	—	23
Provisions against customers:						
Specific provisions	2,774	688	1,321	1,482	341	6,606
General provisions ³	871	455	175	874	136	2,511
Provisions at 31 December	3,668	1,143	1,496	2,356	477	9,140
Provisions against customers as a percentage of loans and advances to customers:						
Specific provisions	1.65	0.97	3.42	1.85	9.73	1.83
General provisions	0.52	0.64	0.45	1.09	3.88	0.69
Total	2.17	1.61	3.87	2.94	13.61	2.52

1 See table below 'Net charge to the profit and loss account for bad and doubtful debts'.

2 Other movements include amounts transferred in on the acquisition of HSBC Mexico of US\$1,704 million.

3 General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.

Financial Review (continued)

	Year ended 31 December 2001					
	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Provisions at 1 January	3,025	1,802	2,091	739	540	8,197
Amounts written off:						
Banks	(5)	—	—	—	—	(5)
Commercial, industrial and international trade	(123)	(238)	(256)	(107)	(29)	(753)
Real estate	(27)	(29)	(18)	(10)	(4)	(88)
Non-bank financial institutions	(5)	(53)	(5)	(3)	(1)	(67)
Governments	—	—	—	—	—	—
Other commercial	(54)	(34)	(48)	(107)	(215)	(458)
Residential mortgages	(4)	(121)	(7)	(2)	(13)	(147)
Other personal	(224)	(155)	(93)	(93)	(95)	(660)
Total amounts written off	(442)	(630)	(427)	(322)	(357)	(2,178)
Recoveries of amounts written off in previous years:						
Banks	—	—	—	—	—	—
Commercial, industrial and international trade	12	1	11	18	3	45
Real estate	1	2	1	—	—	4
Non-bank financial institutions	—	3	1	—	—	4
Governments	—	—	—	—	—	—
Other commercial	17	12	99	11	1	140
Residential mortgages	1	5	—	—	—	6
Other personal	34	8	26	14	4	86
Total recoveries	65	31	138	43	8	285
Net charge to profit and loss account ¹ :						
Banks	(1)	—	—	—	—	(1)
Commercial, industrial and international trade	164	15	157	93	55	484
Real estate	(35)	16	(6)	2	7	(16)
Non-bank financial institutions	(2)	(20)	(14)	2	—	(34)
Governments	(2)	—	—	(3)	—	(5)
Other commercial	143	(84)	(58)	151	90	242
Residential mortgages	(47)	111	10	1	17	92
Other personal	257	168	82	70	125	702
General provisions	(36)	(9)	1	(16)	633	573
Total charge	441	197	172	300	927	2,037
Foreign exchange and other movements	(22)	8	(22)	(37)	(85)	(158)
Provisions at 31 December	3,067	1,408	1,952	723	1,033	8,183
Provisions against banks:						
Specific provisions	22	—	—	—	—	22
Provisions against customers:						
Specific provisions	2,204	856	1,786	289	365	5,500
General provisions ²	841	552	166	434	668	2,661
Provisions at 31 December	3,067	1,408	1,952	723	1,033	8,183
Provisions against customers as a percentage of loans and advances to customers:						
Specific provisions	1.61	1.24	5.44	0.39	7.03	1.73
General provisions	0.62	0.80	0.51	0.59	12.87 ³	0.84
Total	2.23	2.04	5.95	0.98	19.90	2.57

¹ See table below 'Net charge to the profit and loss account for bad and doubtful debts'

² General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.

³ Includes US\$600 million of additional provisions held against Argentine loans.

Year ended 31 December 2000						
	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Provisions at 1 January	2,153	1,887	2,686	864	430	8,020
Amounts written off:						
Banks	(9)	-	-	-	-	(9)
Commercial, industrial and international trade	(154)	(202)	(191)	(97)	(36)	(680)
Real estate	(27)	(9)	(58)	(13)	(3)	(110)
Non-bank financial institutions	(2)	(8)	(3)	-	-	(13)
Governments	(37)	-	-	-	-	(37)
Other commercial	(68)	(68)	(149)	(97)	(15)	(397)
Residential mortgages	(5)	(82)	(5)	(4)	(7)	(103)
Other personal	(181)	(73)	(88)	(90)	(30)	(462)
Total amounts written off	(483)	(442)	(494)	(301)	(91)	(1,811)
Recoveries of amounts written off in previous years:						
Banks	-	-	-	-	-	-
Commercial, industrial and international trade	4	3	3	1	2	13
Real estate	7	-	2	3	-	12
Non-bank financial institutions	3	-	2	1	-	6
Governments	3	-	-	-	-	3
Other commercial	4	4	23	11	1	43
Residential mortgages	1	1	-	-	1	3
Other personal	32	8	19	15	6	80
Total recoveries	54	16	49	31	10	160
Net charge to profit and loss account ¹ :						
Banks	2	-	-	-	-	2
Commercial, industrial and international trade	87	81	107	89	43	407
Real estate	(9)	40	19	10	5	65
Non-bank financial institutions	1	-	(3)	(2)	2	(2)
Governments	(19)	-	-	-	-	(19)
Other commercial	(3)	(30)	(18)	80	21	50
Residential mortgages	1	101	5	9	12	128
Other personal	245	55	63	109	109	581
General provisions	43	1	(188)	(138)	2	(280)
Total charge	348	248	(15)	157	194	932
Foreign exchange and other movements ²	953	93	(135)	(12)	(3)	896
Provisions at 31 December	3,025	1,802	2,091	739	540	8,197
Provisions against banks:						
Specific provisions	30	-	-	-	-	30
Provisions against customers:						
Specific provisions	2,135	1,241	1,929	278	482	6,065
General provisions ³	860	561	162	461	58	2,102
Provisions at 31 December	3,025	1,802	2,091	739	540	8,197
Provisions against customers as a percentage of loans and advances to customers:						
Specific provisions	1.61	1.87	6.23	0.44	7.54	2.03
General provisions	0.65	0.84	0.53	0.74	0.91	0.70
Total	2.26	2.71	6.76	1.18	8.45	2.73

1 See table below 'Net charge to the profit and loss account for bad and doubtful debts'.

2 Other movements include amounts transferred in on the acquisition of CCF of US\$882 million.

3 General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.

Financial Review (continued)

Year ended 31 December 1999						
	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Provisions at 1 January	1,932	1,554	2,181	599	392	6,658
Amounts written off:						
Banks						
Commercial, industrial and international trade	(89)	(146)	(130)	(33)	(36)	(434)
Real estate	(25)	(14)	(32)	(2)	(1)	(74)
Non-bank financial institutions	(1)	—	(35)	(2)	—	(38)
Governments	—	—	—	—	—	—
Other commercial	(43)	(15)	(49)	(12)	(14)	(133)
Residential mortgages	(2)	(3)	(5)	(10)	(4)	(24)
Other personal	(222)	(78)	(62)	(106)	(15)	(483)
Total amounts written off	(382)	(256)	(313)	(165)	(70)	(1,186)
Recoveries of amounts written off in previous years:						
Banks	—	—	1	—	—	1
Commercial, industrial and international trade	15	1	1	3	2	22
Real estate	2	—	2	13	—	17
Non-bank financial institutions	20	—	—	—	—	20
Governments	11	—	—	—	—	11
Other commercial	10	1	1	9	—	21
Other personal	32	8	13	19	1	73
Total recoveries	90	10	18	44	3	165
Net charge to profit and loss account ¹ :						
Banks	(2)	—	(2)	—	—	(4)
Commercial, industrial and international trade	155	273	414	60	44	946
Real estate	(14)	96	86	(18)	4	154
Non-bank financial institutions	11	45	75	1	—	132
Governments	(62)	—	—	(2)	—	(64)
Other commercial	19	42	169	11	33	274
Residential mortgages	—	86	7	1	8	102
Other personal	312	77	74	79	38	580
General provisions	19	(34)	(14)	(23)	5	(47)
Total charge	438	585	809	109	132	2,073
Foreign exchange and other movements	75	(6)	(9)	277	(27)	310
Provisions at 31 December	2,153	1,887	2,686	864	430	8,020
Provisions against banks:						
Specific provisions	24	—	—	—	—	24
Provisions against customers:						
Specific provisions	1,411	1,428	2,221	261	371	5,692
General provisions ²	718	459	465	603	59	2,304
Provisions at 31 December	2,153	1,887	2,686	864	430	8,020
Provisions against customers as a percentage of loans and advances to customers:						
Specific provisions	1.33	2.20	6.98	0.48	6.60	2.17
General provisions	0.68	0.71	1.46	1.12	1.05	0.88
Total	2.01	2.91	8.44	1.60	7.65	3.05

¹ See table below 'Net charge to the profit and loss account for bad and doubtful debts'.

² General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.

Net charge to the profit and loss account for bad and doubtful debts

The charge for bad and doubtful debts and non-performing customer loans and related customer provisions can be analysed as follows:

Year ended 31 December 2003						
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Specific provisions						
New provisions:	1,485	655	412	4,962	263	7,777
Household ¹	193	—	—	4,580	—	4,773
Rest of HSBC	1,292	655	412	382	263	3,004
Release of provisions no longer required:	(351)	(182)	(269)	(87)	(64)	(953)
Household ¹	—	—	—	(4)	—	(4)
Rest of HSBC	(351)	(182)	(269)	(83)	(64)	(949)
Recoveries of amounts previously written off:	(142)	(42)	(74)	(335)	(17)	(610)
Household ¹	(25)	—	—	(282)	—	(307)
Rest of HSBC	(117)	(42)	(74)	(53)	(17)	(303)
	992	431	69	4,540	182	6,214
General provisions						
Argentine additional provision	—	—	—	—	—	—
Household ¹	13	—	—	100	—	113
Rest of HSBC	(131)	(31)	16	36	(124)	(234)
	(118)	(31)	16	136	(124)	(121)
Total bad and doubtful debt charge	874	400	85	4,676	58	6,093
Bank	(6)	—	3	—	—	(3)
Customer	880	400	82	4,676	58	6,096
Customer bad and doubtful debt charge as a percentage of closing gross loans and advances	0.41%	0.53%	0.17%	2.36%	1.03%	1.12%
31 December 2003						
Non-performing loans	5,701	1,671	1,538	5,444	696	15,050
Household	326	—	—	4,380	—	4,706
Rest of HSBC	5,375	1,671	1,538	1,064	696	10,344
Provisions	4,415	1,055	1,177	6,461	583	13,691
Household	154	—	—	5,047	—	5,201
Rest of HSBC	4,261	1,055	1,177	1,414	583	8,490

¹ Since the date of acquisition.

The total bad and doubtful debt charge for Household includes charges for:

Year ended 31 December 2003						
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Residential mortgages	—	—	—	423	—	423
Credit cards	59	—	—	1,740	—	1,799
Other personal lending	122	—	—	2,228	—	2,351

Financial Review (continued)

Bad and doubtful debt provisions (continued)

	Year ended 31 December 2002					
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Specific provisions						
New provisions	963	528	400	399	388	2,678
Release of provisions no longer required	(271)	(160)	(268)	(79)	(48)	(826)
Recoveries of amounts previously written off ...	(58)	(25)	(52)	(35)	(10)	(180)
	<u>634</u>	<u>343</u>	<u>80</u>	<u>285</u>	<u>330</u>	<u>1,672</u>
General provisions						
Argentine additional provision	-	-	-	-	(196)	(196)
Other	(65)	(97)	9	15	(17)	(155)
	<u>(65)</u>	<u>(97)</u>	<u>9</u>	<u>15</u>	<u>(213)</u>	<u>(351)</u>
Total bad and doubtful debt charge	<u>569</u>	<u>246</u>	<u>89</u>	<u>300</u>	<u>117</u>	<u>1,321</u>
Customer bad and doubtful debt charge	569	246	89	300	117	1,321
Customer bad and doubtful debt charge as a percentage of closing gross loans and advances	0.34%	0.35%	0.23%	0.38%	3.27%	0.36%
31 December 2002						
Non-performing loans	4,495	1,724	2,055	1,773	476	10,523
Provisions	3,645	1,143	1,496	2,356	477	9,117

	Year ended 31 December 2001					
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Specific provisions						
New provisions	802	449	577	392	346	2,566
Release of provisions no longer required	(260)	(212)	(268)	(42)	(35)	(817)
Recoveries of amounts previously written off ...	(65)	(31)	(138)	(43)	(8)	(285)
	<u>477</u>	<u>206</u>	<u>171</u>	<u>307</u>	<u>303</u>	<u>1,464</u>
General provisions						
Argentine additional provision	-	-	-	-	600	600
Other	(36)	(9)	1	(7)	24	(27)
	<u>(36)</u>	<u>(9)</u>	<u>1</u>	<u>(7)</u>	<u>624</u>	<u>573</u>
Total bad and doubtful debt charge	<u>441</u>	<u>197</u>	<u>172</u>	<u>300</u>	<u>927</u>	<u>2,037</u>
Customer bad and doubtful debt charge	441	197	172	300	927	2,037
Customer bad and doubtful debt charge as a percentage of closing gross loans and advances	0.32%	0.29%	0.52%	0.41%	17.80%	0.64%
31 December 2001						
Non-performing loans	3,682	2,028	2,723	672	544	9,649
Provisions	3,045	1,408	1,952	723	1,033	8,161

Year ended 31 December 2000						
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Specific provisions						
New provisions	609	454	543	395	232	2,233
Release of provisions no longer required	(248)	(192)	(321)	(72)	(28)	(861)
Recoveries of amounts previously written off ...	(56)	(15)	(49)	(31)	(9)	(160)
	<u>305</u>	<u>247</u>	<u>173</u>	<u>292</u>	<u>195</u>	<u>1,212</u>
General provisions						
Special provision reflecting Asian risk raised in 1997	—	—	(174)	—	—	(174)
Other	43	1	(14)	(135)	(1)	(106)
	<u>43</u>	<u>1</u>	<u>(188)</u>	<u>(135)</u>	<u>(1)</u>	<u>(280)</u>
Total bad and doubtful debt charge	<u>348</u>	<u>248</u>	<u>(15)</u>	<u>157</u>	<u>194</u>	<u>932</u>
Customer bad and doubtful debt charge	346	248	(15)	157	194	930
Customer bad and doubtful debt charge as a percentage of closing gross loans and advances	0.26%	0.37%	—	0.25%	3.04%	0.31%
31 December 2000						
Non-performing loans	3,376	2,521	3,081	684	710	10,372
Provisions	2,995	1,802	2,091	739	540	8,167

Year ended 31 December 1999						
	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	North America US\$m	South America US\$m	Total US\$m
Specific provisions						
New provisions	764	720	1,084	231	194	2,993
Release of provisions no longer required	(255)	(91)	(244)	(56)	(63)	(709)
Recoveries of amounts previously written off ...	(90)	(10)	(17)	(44)	(3)	(164)
	<u>419</u>	<u>619</u>	<u>823</u>	<u>131</u>	<u>128</u>	<u>2,120</u>
General provisions						
Argentine additional provision	—	—	—	—	—	—
Other	19	(34)	(14)	(23)	5	(47)
	<u>19</u>	<u>(34)</u>	<u>(14)</u>	<u>(23)</u>	<u>5</u>	<u>(47)</u>
Total bad and doubtful debt charge	<u>438</u>	<u>585</u>	<u>809</u>	<u>108</u>	<u>133</u>	<u>2,073</u>
Customer bad and doubtful debt charge	440	585	811	108	133	2,077
Customer bad and doubtful debt charge as a percentage of closing gross loans and advances	0.41%	0.90%	2.55%	0.20%	2.25%	0.79%
31 December 1999						
Non-performing loans	2,679	3,133	3,534	584	595	10,525
Provisions	2,129	1,887	2,686	864	430	7,996

Financial Review (continued)

Year ended 31 December 2003 compared with year ended 31 December 2002

The increase in the level of new specific provisions was principally driven by:

- New provisions in North America, which were US\$4,563 million higher than in 2002, essentially reflected the acquisition of Household, which reported US\$4,580 million of new provisions. The majority of Household's customer loans are in the consumer finance sector and are geographically well-spread across the United States. During the period since its acquisition, Household's new provisions reflected the impact of the weak economy, including higher personal bankruptcy filings and a higher level of amounts becoming past due. In the latter part of 2003, there were signs of an improvement in credit quality and delinquency levels stabilised. At 31 December 2003, Household's two-month-and-over consumer contractual delinquency ratio was 5.8 per cent. A charge of US\$48 million from HSBC Mexico arose from consumer lending and credit card portfolios, which are provisioned on a portfolio basis. In Canada, new provisions in 2003 were US\$66 million lower than in 2002, when significant new provisions for a small number of commercial facilities were necessary, most notably in the telecommunications sector.
- In Europe, new provisions were US\$522 million higher than in 2002 of which US\$193 million related to Household's UK consumer finance business, which is provisioned on a portfolio basis. Elsewhere in the UK, the increase in new provisions in personal lending reflected the growth in loan portfolios. In the corporate and commercial portfolio, new provisions were raised to cover a number of accounts in the energy and manufacturing sectors. In France, there were higher provisions, principally due to the deterioration of a borrower in the engineering sector.
- New provisions in Hong Kong were US\$127 million higher than in 2002. Higher levels of new provisions were required in the electronics sector against a small number of customers in niche markets which suffered from a combination of technological developments and excess market capacity. New specific provisions for personal lending (including credit cards) reduced in 2003, reflecting a reduction in bankruptcy filings and improving economic conditions. This more than offsets increased charges in respect of residential mortgages, which reflected the fall in the first half of 2003 in the value of residential property. The second half of 2003 saw property prices stabilise, delinquencies fall and the percentage of the mortgage book with negative equity reduce.
- New specific provisions in the rest of Asia-Pacific were broadly in line with 2002, reflecting the relatively stable and improving economic environment across much of the region during 2003.
- In South America, new provisions decreased by US\$125 million, mainly reflecting an improvement in the economic conditions in Argentina. This was partly offset by increased new provisions in Brazil's personal lending as a difficult economic environment led to higher levels of delinquencies. There were also higher new specific provisions for corporate customers in the commodities and food sectors as a result of business failure and, in one case, fraud.

In aggregate, releases and recoveries increased by US\$557 million compared with 2002. Household contributed US\$311 million of the increase due to collections and sales of written-off accounts. In Europe, excluding Household, releases and recoveries were US\$139 million higher, mainly the result of a recovery from an exposure in the transport sector and the upgrading of corporate exposures in the telecommunications and retail sectors.

There was a net release of general provisions of US\$121 million in 2003 compared with a release of US\$351 million in 2002. There were general provision charges of US\$113 million in Household and US\$78 million in HSBC Mexico, reflecting growth in lending. In Europe, excluding Household's UK consumer finance business, a net release of general provision of US\$131 million reflected an improved economic outlook and successful restructuring and refinancing activity in industry sectors which had been causing concern. In Argentina, a net release of US\$122 million reflected success in collections and the improved environment and hence quality of the remaining loan book. At 31 December 2003, specific and general provisions together covered about 47 per cent of

non-government loans (net of suspended interest) in Argentina.

Year ended 31 December 2002 compared with year ended 31 December 2001

The main factors contributing to the decrease in the bad debt charge against customer loans were:

New specific provisions increased by US\$112 million, or 4 per cent, principally driven by:

- New provisions in Europe, which were US\$161 million higher than in 2001, reflecting an increase in non-performing loans in the UK. In UK Banking, there was an increase in specific provisions relating to a small number of corporate exposures in the telecommunications, private healthcare, leisure and manufacturing sectors. These provisions were assessed on a case-by-case basis. By contrast, provisions for UK personal customers were lower than in 2001 as credit quality remained stable and more widespread debt counselling services proved effective. Provisioning against such unsecured loans was determined on a formula based, inter alia, on the number of days loans were delinquent. No major changes were made during the year to the assumptions underpinning this provisioning. The level of new specific provisions against residential mortgages in Europe remained very low.
- New specific provisions in the rest of Asia-Pacific decreased by US\$177 million compared with 2001, reflecting the fall in non-performing loans. In Indonesia and Malaysia, significantly lower new provisions were raised, particularly against commercial and corporate borrowers, as the economic conditions in those countries improved. In the Middle East, new provisions required on the corporate loan book were lower following economic growth in the UAE and strengthened credit control systems. These factors helped reduce delinquencies and as a result the level of new provisions on consumer lending.
- New corporate provisions in Hong Kong declined by US\$48 million reflecting a reduction in non-performing loans. As the economy remained in deflation, high levels of unemployment and the impact of new bankruptcy laws significantly increased the incidence of personal bankruptcy filings, leading

to a rise of US\$127 million in new provisions against personal lending, principally on credit cards.

- In aggregate, releases and recoveries were US\$96 million less than those recorded in 2001. 2001 benefited from exceptional recoveries against a long-standing Olympia and York exposure and from successful restructuring and recoveries achieved in Malaysia on corporate and commercial loans impaired during the Asian economic crisis in the late 1990s.

Excluding Argentina, there was a net release of general provisions of US\$155 million compared with a release of US\$27 million in 2001. There was a release of US\$97 million in Hong Kong reflecting a reduction in estimated latent loan losses at 31 December 2002. The estimate of these latent losses reflected the Group's historical experience of the rate at which such losses occur and are identified, the structure of the credit portfolio, and the economic and credit conditions prevailing at the balance sheet date. In the UK there was a release of some US\$50 million of general provisions as a number of corporate borrowers who had been causing concern at the 2001 year end were specifically provisioned against in 2002. In Argentina, an additional general provision of US\$600 million (at constant exchange rates, US\$292 million) was raised at the end of 2001. In 2002, US\$196 million of specific impairments were raised and the general provision requirement was reduced accordingly. As individual loans became impaired, this caused an underlying increase in the level of non-performing loans in South America. The loss experience on corporate credit in Argentina during 2002 confirmed that the level of general provisions established in 2001 was appropriate. At the end of 2002, specific and general provisions together continued to cover about 60 per cent of non-government loans in Argentina.

Financial Review (continued)

Provisions for bad and doubtful debts as a percentage of average gross loans and advances to customers

	Europe %	Hong Kong %	Rest of Asia-Pacific %	North America %	South America %	Total %
Year ended 31 December 2003						
New provisions	0.76	0.89	0.96	2.91	6.09	1.60
Releases and recoveries	(0.25)	(0.30)	(0.80)	(0.25)	(1.88)	(0.32)
Net charge for specific provisions	0.51	0.59	0.16	2.66	4.21	1.28
Total provisions charged ...	0.45	0.54	0.20	2.74	1.34	1.25
Amount written off net of recoveries	0.39	0.73	0.86	2.93	3.94	1.40
Year ended 31 December 2002						
New provisions	0.62	0.75	1.13	0.51	9.97	0.78
Releases and recoveries	(0.21)	(0.26)	(0.90)	(0.15)	(1.48)	(0.29)
Net charge for specific provisions	0.41	0.49	0.23	0.36	8.49	0.49
Total provisions charged ...	0.37	0.35	0.25	0.38	3.01	0.38
Amount written off net of recoveries	0.25	0.72	1.55	0.41	3.91	0.56
Year ended 31 December 2001						
New provisions	0.60	0.66	1.85	0.55	5.72	0.82
Releases and recoveries	(0.24)	(0.36)	(1.31)	(0.12)	(0.71)	(0.35)
Net charge for specific provisions	0.36	0.30	0.54	0.43	5.01	0.47
Total provisions charged ...	0.33	0.29	0.55	0.42	15.36	0.65
Amount written off net of recoveries	0.28	0.88	0.93	0.39	5.78	0.61

Areas of special interest

Telecommunications industry exposure

Telecommunications industry exposure is a designated special category of exposure and is controlled under agreed caps. The exposure analysed below is well spread across geographical markets reflecting HSBC's international footprint.

Group exposure to the sector as a percentage of total loans and advances was 0.72 per cent as at 31 December 2003 compared with 1.34 per cent at 31 December 2002. This exposure had the following characteristics:

	Percentage of telecommunications industry exposure	
	At 31 December 2003 %	At 31 December 2002 %
Investment grade under		
HSBC gradings	66	57
Under one year remaining		
maturity	21	33
Telecom operators	79	79
Telecom manufacturers	21	21
Non-performing accounts ...	3	6
of which provided	56	59

Argentina

The exposure of HSBC's banking operations to Argentina at 31 December 2003 amounted to US\$1.8 billion (31 December 2002: US\$1.7 billion). Of this amount, US\$1.5 billion was in-country exposure including US\$0.6 billion of loan exposures to the Argentine Government received in exchange for debt securities. These figures are prepared in accordance with the Bank of England *Country Exposure Report*

(Form C1) guidelines and therefore exclude the exposures of insurance subsidiaries. HSBC's insurance subsidiaries' exposures to Argentina as at 31 December 2003 amounted to total assets of US\$0.7 billion, of which US\$0.5 billion related to long-term assurance assets attributable to policyholders, mainly comprising loans to the Argentine Government received in exchange for debt securities. Overall, in-country provisions of US\$198 million were held against gross customer non-government loans of US\$456 million. There were also cross-border provisions of US\$118 million held against exposures to customers in Argentina.

During 2003, HSBC recovered some US\$122 million equivalent of general credit provisions raised in 2001 as the credit portfolio stabilised and non-performing accounts fell due to success in collections and a better environment. The improved environment reflects both political and economic progress in the period. The return of a democratically elected president substantially improved the political scene and economically the country began to grow again, driven by improved sentiment and the impact on the export sector of the massive devaluation suffered since 2001.

Argentina, however, continues to face, and must resolve, fundamental structural challenges including reaching a settlement with its international creditors. HSBC continues to monitor developments in Argentina closely and plans to continue to operate there and contribute to a revitalised financial sector. However, HSBC is prepared to take the necessary actions if required to protect the value of its shareholders' interests in the event of unforeseen political or economic events.

Risk elements in the loan portfolio

The SEC requires disclosure of credit risk elements under the following headings that reflect US accounting practice and classifications:

- loans accounted for on a non-accrual basis;
- accruing loans contractually past due 90 days or more as to interest or principal; and
- troubled debt restructurings not included in the above.

In accordance with UK accounting practice, a number of operating companies suspend interest rather than ceasing to accrue. This additional

category is also reported below, as are assets acquired in exchange for advances.

Non-performing loans and advances¹

	31 December 2003 US\$m	31 December 2002 US\$m
Banks	24	17
Customers		
– Household	4,706	–
– Other HSBC	10,344	10,523
	15,050	10,523
Total non-performing loans and advances	15,074	10,540
Total provisions cover as a percentage of non-performing loans and advances	91.0%	86.7%

¹ Net of suspended interest.

Non-performing customer loans¹ and related specific provisions outstanding by geographical segment

	2003		2002	
	Non- performing loans US\$m	Specific Provisions US\$m	Non- performing loans US\$m	Specific provisions US\$m
Europe	5,701	3,554	4,495	2,774
Hong Kong	1,671	629	1,724	688
Rest of Asia- Pacific	1,538	981	2,055	1,321
North America ...	5,444	5,184	1,773	1,482
South America ...	696	530	476	341
	15,050	10,878	10,523	6,606

¹ Net of suspended interest.

Total non-performing loans to customers increased by US\$4,527 million during 2003, largely as a consequence of the Household acquisition. At 31 December 2003, non-performing loans represented 2.8 per cent of total lending compared with 2.9 per cent at 31 December 2002.

Portfolio provisioning methodologies for unsecured personal finance (using roll rates or loss rates) normally leads to a provision coverage of non-performing loans in excess of 100 per cent, as significant loss or roll rates are applied to performing loans. As a consequence, therefore, of the acquisition of Household, the overall coverage of non-performing loans has risen from 86.7 per cent at 31 December 2002 to 91.0 per cent at 31 December 2003. The overall specific provision coverage of non-performing loans similarly increased from 62.8 per cent to 72.3 per cent. Excluding the impact of Household, the coverage percentage declined to 60.8 per cent. This was due to US\$936 million of write-offs of largely provided

Financial Review (continued)

non-performing loans in HSBC Mexico, partly offset by an increase in the percentage coverage in South America as unsecured personal finance loans grew faster than corporate and commercial lending.

In both the UK and France, underlying credit quality remained stable. Household's European operations added US\$326 million to non-performing loans. Excluding this, and at constant exchange rates, non-performing loans increased by US\$264 million, or 5 per cent. The rise in the level of non-performing loans reflected the deterioration of a small number of corporate accounts. In value terms, this was concentrated in the energy, engineering, and telecommunications sectors.

In Hong Kong, non-performing loans decreased slightly during 2003, largely due to recoveries and loan repayments.

In the rest of Asia-Pacific, non-performing loans decreased by US\$517 million during 2003 due mainly to write-offs and recoveries in Malaysia, New Zealand, Indonesia and Singapore.

The level of non-performing loans in North America increased significantly due to the acquisition of Household. In Mexico, non-performing loans fell following write-offs of US\$936 million in the commercial and consumer loan books as management continued to review critically the acquired loan assets. The level of non-performing loans elsewhere in North America remained in line with the level at 31 December 2002.

In South America, there was a decrease in non-performing loans in 2003 in Argentina as recoveries were made on a number of accounts; about 56 per cent of the non-government customer loan book is now classified as non-performing compared with 74 per cent at 31 December 2002. In Brazil, the level of non-performing loans increased as the relatively high prevailing interest rates resulted in higher delinquencies in both the personal and commercial/corporate portfolios.

Troubled debt restructurings

US GAAP requires separate disclosure of any loans whose terms have been modified to grant concessions other than warranted by market conditions due to problems with the borrower. These are classified as 'troubled debt restructurings' and are distinct from the normal restructuring activities described above. Disclosure of troubled debt

restructurings may be discontinued after the first year if the debt is performing in accordance with the new terms.

Troubled debt restructurings increased in Mexico from restructuring of commercial accounts, and in Europe arising from the restructuring of a corporate borrower in the telecommunications equipment sector. The reduction in Hong Kong reflected the full repayment of balances on certain restructured borrowings.

Accruing loans past due 90 days or more

Accruing loans past due 90 days increased as a result of the acquisition of Household. In common with other card issuers including other parts of HSBC, Household continues to accrue interest on credit cards past 90 days until charged off at 180 days past due. Appropriate provisions are raised against the proportion of interest thought to be irrecoverable.

Potential problem loans

Credit risk elements also cover potential problem loans. These are loans where known information about possible credit problems of borrowers causes management serious doubts as to the borrowers' ability to comply with the loan repayment terms. At 31 December 2003, all loans and advances in Argentina and all cross-border loans to Argentina which were not otherwise included as part of total risk elements, have been designated as potential problem loans.

At 31 December 2003, there were potential problem loans of US\$701 million (31 December 2002: US\$599 million) in respect of Argentine loans.

Risk elements

The following table provides an analysis of risk elements in the loan portfolios at 31 December for the past five years:

	31 December 2003 US\$m	31 December 2002 US\$m	31 December 2001 US\$m	31 December 2000 US\$m	31 December 1999 US\$m
Loans accounted for on a non-accrual basis					
Europe	3,138	2,393	2,052	1,985	1,176
Household	326	—	—	—	—
Other	2,812	2,393	2,052	1,985	1,176
Hong Kong	166	247	213	236	163
Rest of Asia-Pacific	168	294	195	429	435
North America	4,618	1,624	593	627	550
Household	3,683	—	—	—	—
Other	935	1,624	593	627	550
South America	601	293	429	550	447
Total	8,691	4,851	3,482	3,827	2,771
Loans on which interest has been accrued but suspended					
Europe	2,542	2,086	1,553	1,389	1,514
Household	—	—	—	—	—
Other	2,542	2,086	1,553	1,389	1,514
Hong Kong	1,504	1,460	1,795	2,259	2,898
Rest of Asia-Pacific	1,351	1,714	2,497	2,627	3,097
North America	33	48	67	39	34
Household	—	—	—	—	—
Other	33	48	67	39	34
South America	95	183	115	160	133
Total	5,525	5,491	6,027	6,474	7,676
Assets acquired in exchange for advances					
Europe	32	26	84	25	27
Household	—	—	—	—	—
Other	32	26	84	25	27
Hong Kong	2	17	19	26	72
Rest of Asia-Pacific	30	54	32	24	2
North America	794	101	14	19	17
Household	697	—	—	—	—
Other	97	101	14	19	17
South America	—	—	—	—	—
Total	858	198	149	94	118
Total non-performing loans	15,074	10,540	9,658	10,395	10,565
Troubled debt restructurings					
Europe	159	41	—	—	—
Household	—	—	—	—	—
Other	159	41	—	—	—
Hong Kong	571	396	381	395	266
Rest of Asia-Pacific	68	89	131	231	138
North America	210	4	3	7	9
Household	2	—	—	—	—
Other	208	4	3	7	9
South America	837	669	144	142	146
Total	1,845	1,199	659	775	559
Accruing loans contractually past due 90 days or more as to principal or interest					
Europe	34	16	15	11	21
Household	—	—	—	—	—
Other	34	16	15	11	21
Hong Kong	205	193	98	76	84
Rest of Asia-Pacific	45	33	38	66	54
North America	1,252	42	52	64	59
Household	1,215	—	—	—	—
Other	37	42	52	64	59
South America	2	7	47	82	58
Total	1,538	291	250	299	276
Total risk elements					
Europe	5,905	4,562	3,704	3,410	2,738
Household	326	—	—	—	—
Other	5,579	4,562	3,704	3,410	2,738
Hong Kong	2,448	2,313	2,506	2,992	3,483
Rest of Asia-Pacific	1,662	2,184	2,893	3,377	3,726
North America	6,907	1,819	729	756	669
Household	5,597	—	—	—	—
Other	1,310	1,819	729	756	669
South America	1,535	1,152	735	934	784
Total	18,457	12,030	10,567	11,469	11,400
Provisions for bad and doubtful debts as a % of total risk elements	74.3	76.0	77.4	71.5	70.3

Financial Review (continued)

Interest foregone on non-performing lendings

Interest income that would have been recognised under the original terms of the non-accrual, suspended interest and restructured loans amounted to approximately US\$380 million in 2003 compared with US\$406 million in 2002, US\$640 million in 2001 and US\$955 million in 2000. Interest income of approximately US\$230 million in 2003 from such loans was recorded in 2003, compared with US\$258 million in 2002, US\$261 million in 2001, US\$324 million in 2000.

Country distribution of outstandings and cross-border exposures

HSBC controls the risks associated with cross-border lending, essentially the risk of foreign currency required for payments not being available to local residents, through a central process of internal country limits which are determined by taking into account both economic and political risks. Exposure to individual countries and cross-border exposure in aggregate is kept under continuous review.

The following tables analyse the aggregate of in-country foreign currency and cross-border outstandings by type of borrower to countries which individually represent in excess of 1 per cent of HSBC's total assets. Classification is based upon the country of residence of the borrower but recognises the transfer of country risk in respect of third party guarantees or residence of the head office where the borrower is a branch. In accordance with the Bank of England Country Exposure Report (Form C1) guidelines, outstandings comprise loans and advances (excluding settlement accounts), amounts receivable under finance leases, acceptances, commercial bills, certificates of deposit and debt and equity securities (net of short positions), and exclude accrued interest and intra-HSBC exposures. For 2003, outstandings to counterparties in the UK were collected on a comparable basis to that required for the Form C1 for the first time. For 2002 and 2001, the UK outstandings, which are not recorded on Form C1 because the UK is HSBC's country of domicile, have not been collected or disclosed.

31 December 2003				
	Banks	Government and	Other	Total
	US\$bn	official institutions	US\$bn	US\$bn
		US\$bn		
United Kingdom	14.2	3.1	20.4	37.7
Germany	16.0	8.0	3.7	27.7
United States	5.5	8.4	12.3	26.2
France	9.5	2.3	5.5	17.3
The Netherlands	9.0	0.6	4.6	14.2
Hong Kong	1.1	0.7	10.0	11.8
Canada	6.0	3.2	1.8	11.0
Italy	4.4	5.2	0.8	10.4

31 December 2002				
	Banks	Government and	Other	Total
	US\$bn	official institutions	US\$bn	US\$bn
		US\$bn		
United States	5.6	9.6	9.7	24.9
Germany	16.9	2.4	2.7	22.0
France	5.8	1.7	5.0	12.5
The Netherlands	7.5	0.4	4.0	11.9
Hong Kong	0.9	0.7	9.1	10.7
Canada	4.8	2.9	2.4	10.1
Japan	4.0	4.1	1.0	9.1
Italy	4.7	2.2	1.1	8.0
Australia	5.8	0.5	1.6	7.9

31 December 2001				
	Banks	Government and	Other	Total
	US\$bn	official institutions	US\$bn	US\$bn
		US\$bn		
Germany	22.0	2.1	2.4	26.5
United States	5.1	9.8	9.6	24.5
France	8.1	1.5	4.1	13.7
The Netherlands	6.9	0.3	3.4	10.6
Hong Kong	0.8	0.7	9.0	10.5
Italy	8.3	1.5	0.6	10.4
Canada	5.6	2.2	1.5	9.3
Japan	3.4	4.4	0.8	8.6

As at 31 December 2003, HSBC had in-country foreign currency and cross-border outstandings to counterparties in Australia and Japan of between 0.75 per cent and 1 per cent of total assets. The aggregate in-country foreign currency and cross-border outstandings were: Australia:US\$9.1 billion; Japan:US\$7.9 billion.

As at 31 December 2002, HSBC had in-country foreign currency and cross-border outstandings to

counterparties in Belgium of between 0.75 per cent and 1 per cent of total assets. The aggregate in-country foreign currency and cross-border outstandings were US\$5.9 billion.

At 31 December 2001, HSBC had in-country foreign currency and cross-border outstandings to counterparties in Australia, of between 0.75 per cent and 1 per cent of total assets. The aggregate in-country foreign currency and cross-border outstandings were: US\$6.0 billion.

Deposits

The following table analyses the average amount of bank and customer deposits and certificates of deposit ('CDs') and other money market instruments (which are included within 'debt securities in issue' in the balance sheet), together with the average interest rates paid thereon for each of the past three years. The geographical analysis of average deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies. The 'Other' category includes securities sold under agreements to repurchase.

	Year ended 31 December					
	2003		2002		2001	
	Average balance US\$m	Average rate %	Average balance US\$m	Average rate %	Average Balance US\$m	Average rate %
Deposits by banks						
Europe						
Demand and other – non-interest bearing	9,895	–	7,626	–	8,184	–
Demand – interest bearing	6,418	3.3	5,282	3.0	5,130	3.4
Time	17,877	1.9	19,053	2.8	20,672	5.5
Other	13,828	2.5	12,113	3.0	10,437	3.9
Total	48,018		44,074		44,423	
Hong Kong						
Demand and other – non-interest bearing	1,253	–	1,011	–	1,085	–
Demand – interest bearing	2,059	1.0	1,910	1.6	1,740	3.6
Time	450	1.1	321	2.0	495	4.1
Other	110	5.5	39	7.0	43	3.2
Total	3,872		3,281		3,363	
Rest of Asia-Pacific						
Demand and other – non-interest bearing	1,438	–	898	–	596	–
Demand – interest bearing	737	1.8	663	2.4	600	4.4
Time	3,055	3.6	2,804	4.4	2,820	5.7
Other	664	1.7	786	4.6	556	4.3
Total	5,894		5,151		4,572	
North America						
Demand and other – non-interest bearing	1,442	–	1,271	–	1,447	–
Demand – interest bearing	3,161	0.7	3,566	1.0	2,962	2.5
Time	3,151	2.9	2,205	2.4	1,876	3.9
Other	2,526	1.2	3,488	1.7	4,015	3.4
Total	10,280		10,530		10,300	
South America						
Demand and other – non-interest bearing	17	–	19	–	149	–
Demand – interest bearing	181	8.3	385	29.4	916	10.8
Time	273	12.8	296	5.2	712	4.1
Other	299	19.1	180	15.0	221	13.3
Total	770		880		1,998	
Total						
Demand and other – non-interest bearing	14,045	–	10,825	–	11,461	–
Demand – interest bearing	12,556	2.2	11,806	3.0	11,348	3.9
Time	24,806	2.3	24,679	3.0	26,575	5.4
Other	17,427	2.6	16,606	2.9	15,272	3.9
Total	68,834		63,916		64,656	

Other information (continued)

in US\$m

	Year ended 31 December					
	2003		2002		2001	
	Average balance US\$m	Average rate %	Average balance US\$m	Average rate %	Average balance US\$m	Average rate %
Customer accounts						
Europe						
Demand and other – non-interest bearing	30,667	–	29,109	–	26,084	–
Demand – interest bearing	101,189	1.8	77,835	2.0	62,475	3.0
Savings	33,876	2.3	23,587	2.9	24,305	4.5
Time	41,010	2.8	44,745	3.1	43,637	4.8
Other	9,696	3.6	6,621	6.4	5,177	8.6
Total	216,438		181,897		161,678	
Hong Kong						
Demand and other – non-interest bearing	8,829	–	6,743	–	5,804	–
Demand – interest bearing	74,818	0.1	62,922	0.3	53,470	2.0
Savings	58,646	0.9	65,914	1.2	76,277	3.3
Time	10,101	1.4	8,630	1.9	8,361	3.8
Other	379	1.3	413	1.2	434	4.5
Total	152,773		144,622		144,346	
Rest of Asia-Pacific						
Demand and other – non-interest bearing	6,467	–	4,913	–	4,328	–
Demand – interest bearing	18,483	1.1	13,903	1.3	10,930	2.1
Savings	25,685	2.7	23,711	3.1	22,023	4.5
Time	6,105	1.6	5,508	2.0	6,006	4.3
Other	2,304	1.2	1,338	2.3	1,008	2.9
Total	59,044		49,373		44,295	
North America						
Demand and other – non-interest bearing	21,364	–	14,412	–	14,209	–
Demand – interest bearing	11,648	1.3	7,088	1.7	5,380	4.1
Savings	48,295	1.2	44,913	1.4	43,181	3.2
Time	6,652	3.3	6,266	4.9	7,396	5.2
Other	11,672	3.3	10,219	2.3	11,752	3.8
Total	99,631		82,898		81,918	
South America						
Demand and other – non-interest bearing	1,192	–	1,038	–	1,212	–
Demand – interest bearing	207	1.9	606	21.7	1,577	14.4
Savings	4,271	18.1	3,438	17.1	5,315	11.4
Time	157	–	11	4.2	316	3.5
Other	246	18.3	255	4.8	345	3.7
Total	6,073		5,348		8,765	
Total						
Demand and other – non-interest bearing	68,519	–	56,215	–	51,637	–
Demand – interest bearing	206,345	1.1	162,354	1.4	133,832	2.7
Savings	170,773	2.0	161,563	2.1	171,101	3.9
Time	64,025	2.5	65,160	3.0	65,716	4.7
Other	24,297	3.3	18,846	3.8	18,716	5.1
Total	533,959		464,138		441,002	
CDs and other money market instruments						
Europe	11,156	2.8	6,958	4.1	6,828	4.8
Hong Kong	9,656	3.6	7,546	4.0	5,902	5.1
Rest of Asia-Pacific	4,906	4.1	2,418	4.3	1,653	5.4
North America	14,309	2.4	4,838	3.0	4,393	5.5
South America	63	19.0	165	13.8	350	12.9
Total	40,090	3.0	21,925	3.9	19,126	5.0

Certificates of deposit and other time deposits

At 31 December 2003, the maturity analysis of certificates of deposit and other wholesale time deposits, by remaining maturity, was as follows:

	3 months or less US\$m	After 3 months but within 6 months US\$m	After 6 months but within 12 months US\$m	After 12 months US\$m	Total US\$m
Europe					
Certificates of deposit	6,651	234	115	1	7,001
Time deposits:					
– banks	14,600	2,549	620	1,450	19,219
– customers	42,451	2,261	1,348	3,035	49,095
Total	63,702	5,044	2,083	4,486	75,315
Hong Kong					
Certificates of deposit	246	651	483	8,152	9,532
Time deposits:					
– banks	655	14	6	37	712
– customers	8,444	441	143	1,121	10,149
Total	9,345	1,106	632	9,310	20,393
Rest of Asia-Pacific					
Certificates of deposit	3,496	313	33	101	3,943
Time deposits:					
– banks	3,287	359	178	392	4,216
– customers	6,693	323	63	322	7,401
Total	13,476	995	274	815	15,560
North America					
Certificates of deposit	3,311	29	8	–	3,348
Time deposits:					
– banks	1,513	166	178	263	2,120
– customers	4,074	766	235	748	5,823
Total	8,898	961	421	1,011	11,291
South America					
Certificates of deposit	–	–	–	–	–
Time deposits:					
– banks	186	75	57	1	319
– customers	87	45	23	–	155
Total	273	120	80	1	474
Total					
Certificates of deposit	13,704	1,227	639	8,254	23,824
Time deposits:					
– banks	20,241	3,163	1,039	2,143	26,586
– customers	61,749	3,836	1,812	5,226	72,623
Total	95,694	8,226	3,490	15,623	123,033

The geographical analysis of deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies. The majority of certificates of deposit and time deposits are in amounts of US\$100,000 and over or the equivalent in other currencies.

Other information (continued)

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Short-term borrowings

HSBC includes short-term borrowings within customer accounts, deposits by banks and debt securities in issue and does not show short-term borrowings separately on the balance sheet. Short-term borrowings are defined by the SEC as Federal funds purchased and securities sold under agreements to repurchase, commercial paper and other short-term borrowings. HSBC's only significant short-term borrowings are securities sold under agreements to repurchase and debt securities in issue. Additional information on these is provided in the tables below.

	Year ended 31 December		
	2003 US\$m	2002 US\$m	2001 US\$m
Securities sold under agreements to repurchase			
Outstanding at 31 December	27,427	21,397	16,882
Average amount outstanding during the year	25,883	21,089	23,850
Maximum quarter-end balance outstanding during the year	30,938	21,468	24,901
Weighted average interest rate during the year	2.0%	4.0%	4.9%
Weighted average interest rate at the year-end	1.9%	3.9%	5.1%
Short term bonds			
	Year ended 31 December		
	2003 US\$m	2002 US\$m	2001 US\$m
Outstanding at 31 December	29,979	2,775	2,351
Average amount outstanding during the year	17,445	3,093	2,771
Maximum quarter-end balance outstanding during the year	29,979	4,422	3,167
Weighted average interest rate during the year	2.5%	4.3%	4.7%
Weighted average interest rate at the year-end	2.5%	4.7%	6.1%

Off-balance sheet arrangements

HSBC enters into certain off-balance sheet arrangements with customers in the ordinary course of business, as described below.

(i) Financial guarantees, letters of credit and similar undertakings

Note 39(a) of the 'Notes on the Financial Statements' describes various types of guarantees and discloses the maximum potential future payments under such arrangements.

(ii) Commitments to lend

Undrawn credit lines are disclosed in Note 39(a) of the 'Notes on Financial Statements'. HSBC generally has the right to change or terminate any conditions of a customer's overdraft, credit card or other credit line upon notification to the customer.

(iii) Credit derivatives

HSBC enters into credit derivatives through the dealing operations of certain Group companies, acting as an intermediary between a broad range of users, structuring deals to produce risk management products for its customers. Virtually all risk is offset through entering into a credit derivative contract with another counterparty. For a more detailed description of credit derivatives and information regarding their carrying amounts in 2003 and 2002 refer to Note 38(a) of the 'Notes on Financial Statements'.

(iv) Special purpose and variable interest entities

HSBC uses special purpose entities ('SPEs'), or variable interest entities ('VIEs'), to securitise loans and advances it has originated where such a source of funding is cost effective. Such loans and advances generally remain on-balance sheet under UK GAAP.

HSBC also administers SPEs that have been established for the purpose of providing alternative sources of financing to HSBC's customers. Such arrangements also enable HSBC to provide tailored investment opportunities for investors.

These SPEs, commonly referred to as asset-backed or multi-seller conduits, purchase interests in a diversified pool of receivables from customers or in the market using finance provided by a third party. The cash flows received by the SPE on the pool of receivables are used to service the finance provided by investors. HSBC administers this arrangement, which facilitates diversification of funding sources and the tranching of credit risk. HSBC also provides part of the liquidity facilities to the entities and secondary credit enhancement.

HSBC's association with SPEs also includes interests in and management of investment funds, providing finance to public and private sector infrastructure projects, and capital funding through the issue of preference shares via partnerships.

The activities of SPE administered by HSBC are closely monitored by senior management. However, the use of SPEs is not a significant part of HSBC's activities. For a further discussion of HSBC's involvement with VIEs and the accounting treatments under UK and US GAAP see Note 50(q) of the 'Notes on the Financial Statements'.

Contractual obligations

The table below provides details of HSBC's material contractual obligations as at 31 December 2003.

	Payments due by period			
	Total US\$m	Less than 1 year US\$m	1-5 years US\$m	More than 5 years US\$m
Long-term debt obligations	171,142	64,668	61,836	44,638
Capital (finance) lease obligations	585	25	20	540
Operating lease obligations	727	130	374	223
Purchase obligations	1,551	1,314	237	-
Short positions in debt securities	27,764	27,764	-	-
Total	201,769	93,901	62,467	45,401

Disclosure controls

The Group Chairman and Group Finance Director, with the assistance of other members of management, carried out an evaluation of the effectiveness of the design and operation of HSBC Holdings' disclosure controls and procedures as of 31 December 2003. Based upon and as of that evaluation, the Group Chairman and Group Finance Director concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the company files and submits under the US Securities Exchange Act is recorded, processed, summarised and reported as and when required.

There were no changes in HSBC Holdings' internal control over financial reporting during the year ended 31 December 2003 that have materially affected, or are reasonably likely to materially affect, HSBC Holdings' internal control over financial reporting.

Financial Statements

Consolidated profit and loss account for the year ended 31 December 2003

Notes	2003			2002	2001
	Total US\$m	Household ¹ US\$m	Rest of HSBC US\$m	US\$m	US\$m
Interest receivable					
– interest receivable and similar income arising from debt securities	6,947	60	6,887	7,253	8,590
– other interest receivable and similar income	33,021	10,326	22,695	21,342	26,671
Interest payable	(14,370)	(2,081)	(12,289)	(13,135)	(20,536)
Net interest income	25,598	8,305	17,293	15,460	14,725
Dividend income	222	12	210	278	186
Fees and commissions receivable	12,560	1,674	10,886	9,245	8,756
Fees and commissions payable	(2,166)	(458)	(1,708)	(1,421)	(1,286)
Dealing profits	2,178	–	2,178	1,313	1,685
Other operating income	2,680	650	2,030	1,720	1,822
Operating income	41,072	10,183	30,889	26,595	25,888
Administrative expenses	(19,685)	(3,296)	(16,389)	(13,764)	(13,471)
Depreciation and amortisation					
– tangible fixed assets	(1,382)	(99)	(1,283)	(1,190)	(1,134)
– intangible assets	(15)	(11)	(4)	–	–
– goodwill	(1,450)	(381)	(1,069)	(854)	(799)
Operating profit before provisions	18,540	6,396	12,144	10,787	10,484
Provisions for bad and doubtful debts	(6,093)	(4,575)	(1,518)	(1,321)	(2,037)
Provisions for contingent liabilities and commitments	(35)	–	(35)	(39)	(649)
Loss from foreign currency redenomination in Argentina	(9)	–	(9)	(68)	(520)
Amounts written off fixed asset investments	(106)	–	(106)	(324)	(125)
Operating profit	12,297	1,821	10,476	9,035	7,153
Share of operating loss in joint ventures ..	(116)	–	(116)	(28)	(91)
Share of operating profit in associates ...	221	–	221	135	164
Gains/(losses) on disposal of					
– investments	451	6	445	532	754
– tangible fixed assets	(37)	–	(37)	(24)	20
Profit on ordinary activities before tax ..	12,816	1,827	10,989	9,650	8,000
Tax on profit on ordinary activities	(3,120)	(463)	(2,657)	(2,534)	(1,988)
Profit on ordinary activities after tax ..	9,696	1,364	8,332	7,116	6,012
Minority interests					
– equity	(487)	–	(487)	(505)	(579)
– non-equity	(435)	–	(435)	(372)	(441)
Profit attributable to shareholders	8,774	1,364	7,410	6,239	4,992
Dividends	(6,532)	–	–	(5,001)	(4,467)
Retained profit for the period	2,242	–	–	1,238	525
	US\$			US\$	US\$
Basic earnings per ordinary share	0.84			0.67	0.54
Diluted earnings per ordinary share	0.83			0.66	0.53
Dividends per ordinary share	0.60			0.53	0.48

Movements in reserves are set out in Note 36.

The accompanying notes are an integral part of the Consolidated Financial Statements.

All results are from continuing operations.

¹ The results of Household cover the period since the date of acquisition, 28 March, 2003.

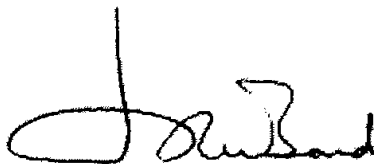
Financial Statements (continued)**Consolidated balance sheet at 31 December 2003**

	<i>Notes</i>	2003 US\$m	2002¹ US\$m
ASSETS			
Cash and balances at central banks		7,661	7,659
Items in the course of collection from other banks		6,628	5,651
Treasury bills and other eligible bills	12	20,391	18,141
Hong Kong Government certificates of indebtedness	13	10,987	9,445
Loans and advances to banks	15	117,173	95,496
Loans and advances to customers	16	528,977	352,344
Debt securities	19	205,722	175,730
Equity shares	20	12,879	7,664
Interests in joint ventures: gross assets		87	486
gross liabilities		(77)	(296)
	21	10	190
Interests in associates	22	1,263	1,116
Other participating interests	23	690	651
Goodwill and intangible assets	24	28,640	17,192
Tangible fixed assets	25	15,748	14,181
Other assets	27	63,128	45,763
Prepayments and accrued income		14,319	7,382
Total assets		1,034,216	758,605

	Notes	2003 US\$m	2002 ¹ US\$m
LIABILITIES			
Hong Kong currency notes in circulation	13	10,987	9,445
Deposits by banks	28	70,426	52,933
Customer accounts	29	573,130	495,438
Items in the course of transmission to other banks		4,383	4,634
Debt securities in issue	30	153,562	34,965
Other liabilities	31	94,669	72,090
Accruals and deferred income		13,760	7,574
Provisions for liabilities and charges	32		
– deferred taxation		1,670	1,154
– other provisions		5,078	3,683
Subordinated liabilities	33		
– undated loan capital		3,617	3,540
– dated loan capital		17,580	14,831
Minority interests			
– equity		2,162	2,122
– non-equity	34	8,719	4,431
Called up share capital	35	5,481	4,741
Share premium account	36	4,406	3,647
Own shares held reserve	36	(923)	(646)
Other reserves	36	21,543	8,729
Revaluation reserves	36	1,615	1,954
Profit and loss account	36	42,351	33,340
Shareholders' funds		<u>74,473</u>	<u>51,765</u>
Total liabilities		<u>1,034,216</u>	<u>758,605</u>

MEMORANDUM ITEMS

Contingent liabilities	39		
– acceptances and endorsements		5,412	4,711
– guarantees and assets pledged as collateral security		54,439	46,527
– other contingent liabilities		29	17
		<u>59,880</u>	<u>51,255</u>
Commitments	39	<u>428,764</u>	<u>225,629</u>



Sir John Bond, Group Chairman


The accompanying notes are an integral part of the Consolidated Financial Statements.

¹ Figures for 2002 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

Financial Statements (continued)

HSBC Holdings balance sheet at 31 December 2003

	Notes	2003 US\$m	2002 ¹ US\$m
FIXED ASSETS			
Tangible assets	25	2	2
Investments	26		
– shares in HSBC undertakings		80,501	57,510
– loans to HSBC undertakings		3,788	4,163
– other investments other than loans		537	484
		<u>84,828</u>	<u>62,159</u>
CURRENT ASSETS			
Debtors			
– money market deposits with HSBC undertakings		6,995	5,708
– other amounts owed by HSBC undertakings		2,526	1,634
– amounts owed by HSBC undertakings (falling due after more than 1 year)		2,412	1,012
– other debtors		95	28
Total assets		<u>12,028</u>	<u>8,382</u>
Cash at bank and in hand			
– balances with HSBC undertakings		901	870
		<u>12,929</u>	<u>9,252</u>
CREDITORS: amounts falling due within 1 year			
Amounts owed to HSBC undertakings		(700)	(1,370)
Subordinated liabilities	33		
– owed to HSBC undertakings		–	(350)
Other creditors		(261)	(196)
Second interim dividend declared	10	(1,309)	(3,069)
Third interim dividend declared	10	(2,627)	–
		<u>(4,897)</u>	<u>(4,985)</u>
NET CURRENT ASSETS		<u>8,032</u>	<u>4,267</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>92,860</u>	<u>66,426</u>
CREDITORS: amounts falling due after more than 1 year			
Subordinated liabilities	33		
– owed to third parties		(5,970)	(5,790)
– owed to HSBC undertakings		(6,845)	(3,686)
Amounts owed to HSBC undertakings		(5,479)	(5,092)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	32	(93)	(93)
NET ASSETS		<u>74,473</u>	<u>51,765</u>
CAPITAL AND RESERVES			
Called up share capital	35	5,481	4,741
Share premium account	36	4,406	3,647
Own shares held reserve	36	(653)	(540)
Revaluation reserve	36	57,041	36,883
Reserve in respect of obligations under CCF and Household share options	36	485	439
Profit and loss account	36	7,713	6,595
		<u>74,473</u>	<u>51,765</u>



Sir John Bond, Group Chairman

The accompanying notes are an integral part of the Consolidated Financial Statements.

1 Figures for 2002 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

Statement of total consolidated recognised gains and losses for the year ended 31 December 2003

	2003 US\$m	2002 US\$m	2001 US\$m
Profit for the financial year attributable to shareholders	8,774	6,239	4,992
Unrealised deficit on revaluation of investment properties:			
Subsidiaries	(28)	(22)	(18)
Associates	(10)	(1)	(5)
Unrealised deficit on revaluation of land and buildings (excluding investment properties):			
Subsidiaries	(292)	(297)	(227)
Exchange and other movements	5,318	3,781	(1,242)
Total recognised gains and losses for the year	13,762	9,700	3,500

Reconciliation of movements in consolidated shareholders' funds for the year ended 31 December 2003

	2003 US\$m	2002 ¹ US\$m	2001 ¹ US\$m
Profit for the period attributable to shareholders	8,774	6,239	4,992
Dividends	(6,532)	(5,001)	(4,467)
	2,242	1,238	525
Other recognised gains and losses relating to the year	4,988	3,461	(1,492)
New share capital subscribed, net of costs	862	337	112
Purchases of own shares to meet share awards and share option awards	(301)	(5)	(66)
Own shares released on vesting of share awards and exercise of options	162	45	15
Amortisation of shares in restricted share plan	19	19	25
Net purchases and sales of own shares for market making purposes ²	(138)	—	88
Total net change in shareholders' funds arising from own shares adjustments	(258)	59	62
Reserve in respect of obligations under CCF share options	(41)	(41)	(16)
New share capital issued in connection with the acquisition of Household	13,405	—	—
Net reserve in respect of obligations under Household share options	84	—	—
Net reserve in respect of the equity component of Household 8.875 per cent Adjustable Conversion-Rate Equity Security Units	3	—	—
Amounts arising on shares issued in lieu of dividends	1,423	1,023	866
Net addition to shareholders' funds	22,708	6,077	57
Shareholders' funds at 1 January as reported	52,406	46,388	46,393
Prior period adjustment (as explained in Note 1)	(641)	(700)	(762)
Shareholders' funds at 1 January restated	51,765	45,688	45,631
Shareholders' funds at end of period	74,473	51,765	45,688

No note of historical cost profits and losses has been presented as there is no material difference between HSBC's results as disclosed in the consolidated profit and loss account and the results on an unmodified historical cost basis.

The accompanying notes are an integral part of the Consolidated Financial Statements.

- Figures for 2002 and 2001 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.
- The net purchases and sales for market making purposes relate to long positions. Short positions arising in market making activities are included within 'Other liabilities'. In 2003, total purchases and sales for market making purposes (including those related to short positions) each amounted to about US\$8.8 billion, with similar levels of trading in both 2002 and 2001.

Financial Statements (continued)**Consolidated cash flow statement for the year ended 31 December 2003**

	Notes	2003 US\$m	2002 ¹ US\$m	2001 ¹ US\$m
Net cash inflow from operating activities	41	22,675	16,426	12,827
Dividends received from associated undertakings		108	114	113
Returns on investments and servicing of finance				
Interest paid on finance leases and similar hire purchase contracts		(37)	(29)	(27)
Interest paid on subordinated loan capital		(882)	(870)	(1,116)
Dividends paid to minority interests				
– equity		(514)	(480)	(472)
– non-equity		(392)	(357)	(599)
Net cash outflow from returns on investments and servicing of finance		(1,825)	(1,736)	(2,214)
Taxation paid		(2,631)	(1,371)	(2,106)
Capital expenditure and financial investments				
Purchase of investment securities		(218,196)	(130,166)	(148,760)
Proceeds from sale and maturities of investment securities ..		206,099	122,495	145,321
Purchase of tangible fixed assets		(1,981)	(1,723)	(1,873)
Proceeds from sale of tangible fixed assets		346	328	557
Purchase of intangible assets		(87)	–	–
Net cash outflow from capital expenditure and financial investments		(13,819)	(9,066)	(4,755)
Acquisitions and disposals				
Net cash inflow/(outflow) from acquisition of and increase in stake in subsidiary undertakings	26	(2,137)	264	(834)
Net cash inflow from disposal of subsidiary undertakings ..		556	–	26
Purchase of interests in associated undertakings and other participating interests		(47)	(649)	(154)
Proceeds from disposal of associated undertakings and other participating interests		3	341	79
Net cash outflow from acquisitions and disposals		(1,625)	(44)	(883)
Equity dividends paid		(4,242)	(3,609)	(3,528)
Net cash inflow/(outflow) before financing		(1,359)	714	(546)
Financing				
Issue of ordinary share capital		845	337	112
Net purchases and sales of own shares for market making purposes		(138)	–	88
Purchases of own shares to meet share awards and share option awards		(301)	(5)	(66)
Own shares released on vesting of share awards and exercise of options		181	64	40
Increase of non equity minority interests		4,104	–	–
Decrease of non equity minority interests		(206)	(50)	(825)
Subordinated loan capital issued		2,358	4,105	456
Subordinated loan capital repaid		(1,464)	(1,923)	(965)
Net cash inflow/(outflow) from financing	42	5,379	2,528	(1,160)
Increase/(decrease) in cash	43	4,020	3,242	(1,706)

The accompanying notes are an integral part of the Consolidated Financial Statements.

1 Figures for 2002 and 2001 have been restated to reflect the adoption of UITF Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts', details of which are set out in Note 1 in the 'Notes on the Financial Statements' on pages 239 to 240.

Notes on the Financial Statements

11/11/2004

1 Basis of preparation

- (a) The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and land and buildings, and in accordance with applicable accounting standards.

The consolidated financial statements are prepared in accordance with the special provisions of Part VII Chapter II of the UK Companies Act 1985 ('the Act') relating to banking groups. The consolidated financial statements comply with Schedule 9 and the financial statements of HSBC Holdings comply with Schedule 4 to the Act.

As permitted by Section 230 of the Act, no profit and loss account is presented for HSBC Holdings.

HSBC has adopted the provisions of the UITF Abstract 37 'Purchases and sales of own shares', and UITF Abstract 38 'Accounting for ESOP trusts'. For a discussion of the impact of the adoption of UITF Abstracts 37 and 38 see Note 1(e) below.

The accounts have been prepared in accordance with the Statements of Recommended Accounting Practice ('SORPs') issued by the British Bankers' Association ('BBA') and Irish Bankers' Federation ('IBF') and with the SORP 'Accounting issues in the asset finance and leasing industry' issued by the Finance & Leasing Association ('FLA').

The SORP issued by the Association of British Insurers ('ABI') 'Accounting for insurance business' contains recommendations on accounting for insurance business for insurance companies and insurance groups. HSBC is primarily a banking group, rather than an insurance group, and, consistent with previously established practice for such groups preparing consolidated financial statements complying with Schedule 9 to the Act, values its long-term assurance businesses using the Embedded Value method. This method includes a valuation of the discounted future earnings expected to emerge from business currently in force, taking into account factors such as recent experience and general economic conditions, together with the surplus retained in the long-term assurance funds.

- (b) The preparation of financial information requires the use of estimates and assumptions about future conditions. In this connection, management believes that the critical accounting policies where management judgement is necessarily applied are those in relation to provisions for bad and doubtful debts, goodwill impairment, and the valuation of unquoted and illiquid debt and equity securities. Application of these policies and the key estimates and assumptions used are described in the Financial Review section on pages 118 to 121 under the heading 'Critical Accounting Policies'.
- (c) The consolidated financial statements of HSBC comprise the financial statements of HSBC Holdings and its subsidiary undertakings. Financial statements of subsidiary undertakings are made up to 31 December, with the exception of the banking and insurance subsidiaries of HSBC Bank Argentina, whose financial statements are made up to 30 June annually to comply with local regulations. Accordingly HSBC uses interim financial statements for its principal banking and insurance subsidiaries in Argentina, drawn up to 31 December annually, and these interim financial statements are audited.

The consolidated financial statements include the attributable share of the results and reserves of joint ventures and associates, based on financial statements made up to dates not earlier than six months prior to 31 December.

All significant intra-HSBC transactions are eliminated on consolidation.

- (d) HSBC's financial statements are prepared in accordance with UK generally accepted accounting principles ('UK GAAP'), which differs in certain respects from Hong Kong and US generally accepted accounting principles ('Hong Kong GAAP' and 'US GAAP'). A discussion of the significant differences between UK GAAP and Hong Kong GAAP is contained in note 49. A discussion of the significant differences between UK GAAP and US GAAP and a reconciliation to US GAAP of certain amounts is contained in Note 50. The Notes on the Financial Statements, taken together with the Financial Review, include the aggregate of all disclosures necessary to satisfy both UK and US reporting requirements.
- (e) The presentation in the financial statements of shares in HSBC Holdings held by HSBC changed in 2003 following the adoption of UITF Abstracts 37 and 38. HSBC Holdings shares held on HSBC's own account are